India Independent

Charles Bettelheim

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Asia

India Independent

Charles Bettelheim

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Charles Bettelheim is Director of Studies at the School for Higher Studies in Social and Economic Science, the Sorbonne.

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CHARLES BETTELHEIM

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CONTENTS

LIST OF TABLES

FOREWORD

THE SOCIAL, economic and political development of the Indian Union is particularly interesting, because the country's problems are as big as its population. We can all learn from what has happened in India. That is why I have been impelled to write this book. But these are not the only reasons. India is a country to which I am deeply attached; I admire its people and the greatness of its civilization.

If one has lived in India, if one has shared the joys, the suffering and the hopes of its people, if one has seen in what wretched conditions most of its population lives—conditions which no figures can express, which are almost beyond belief—it is impossible not to feel with the Indians, and want to tell the world of their difficulties.

I cannot name all of my many Indian friends who have helped me to understand their country and without whose guidance this book could not have been written. But I wish to thank them all, and particularly Professor P. C. Mahalanobis, F.R.S., whose immense learning has been invaluable to me, who has given me the kindest of welcomes whenever I have stayed in India, and who has allowed me to use the facilities of the Institute which he directs.

I should also like to thank Shri Pitambar Pant, who looks after the long-term projects of the Planning Commission, and whose conversation and comments have taught me much; M. Louis Dumont (*Directeur d'Études à l'École Pratique des Hautes Études de Paris*), Dr Surendra Patel, Dr A. Rudra (Indian Statistical Institute), M. René Dumont and M. Daniel Thorner (*Directeur d'Études à l'École Pratique des Hautes Études de Paris*). All have helped me considerably, although I alone must accept the responsibility of the theories and opinions expressed in these pages.

Finally, I should like to thank the *École Pratique des Hautes Études de Paris* (*VI^e Section*) for the help given and for allowing me to visit India with every opportunity of gathering material for this book.

C.B.

PREFACE

TO THE ENGLISH EDITION

I AM glad that this book is now accessible to English readers—and, perhaps even more important, to Indian readers—who may have been unable to use previous editions. The original French text (1962) has been condensed and thoroughly revised in 1966. I wish to thank the publishers; the translator, Mr Anthony Caswell; and Professor David Glass, to whom the present edition owes much.

I should like here to mention some recent events which, although they have altered neither my judgements nor my conclusions, should not be overlooked.

Mr Shastri's death early in 1966 and Mrs Indira Gandhi's succession as Prime Minister have meant little political change. However, the conditions of Mrs Gandhi's election show that the influence of some Provincial Chief Ministers on national politics has increased.

The conflict with Pakistan and the Tashkent agreements were certainly of importance, but Indo-Pakistan relations have not changed radically.

If 1966 is a decisive year for India, it will be because of the economic crisis, mainly apparent in the food shortage. The bad 1965–6 harvest[1] and the ensuing speculation have shown how serious the crisis is. In fact, although the Third Plan has ended, the Fourth Plan has yet to be ratified.[2] Its contents depend to an even greater extent than before on

[1] Between 1961 and 1965 the increase in agricultural production kept pace with the rise in population. After the exceptional 1965–6 drought, agricultural production dropped considerably: foodgrain production in 1965–6 is estimated at 72·3 million tons and at 89 million tons in 1964–5.

[2] The *Draft Outline of the Fourth Plan*'s objectives seem unrealistic, and would demand far greater resources than are at present available. In other fields—mainly in agriculture—the projected rate of development is not justified either by past experience or by recent economic changes. Here are some of the objectives given by the *Draft Outline* for 1970–1:

Foodgrains (M.T.)	120·0
Cotton ,,	8·6
Oilseeds ,,	8·6
Electricity (M.Kw.) (installed capacity)	20·0
Finished Steel (M.T.)	8·8
Aluminium (Th.T.)	330·0
Chemical fertilizers (Th.T.) (in N)	2000·0

negotiations with foreign lenders (mainly the U.S. Government and the World Bank). Our conclusions on this subject are thus borne out.

Paris, December 1967.

C.B.

INTRODUCTION

INDIA today has a past stretching through many centuries of civilization. Her art is both rich and subtle. Her thinkers, her philosophers, her mathematicians, her astronomers have contributed to the knowledge and progress of mankind. She is also young: the independence of the modern state of India was officially proclaimed on August 15, 1947, when two centuries of British rule came to an end.[1]

Two states were born from the break with England: Pakistan and the Indian Union. The Partition was in many ways artificial, and both states were weaker divided than they would have been united. The fault lies to some extent with the British government, which allowed the Partition to become politically inevitable, hoping that the states when separated would be more susceptible to British influence.

However artificially the Partition may have been made, it has to be accepted. When now we speak of India we mean the Indian Union, which stretches from the eighth to the 37th parallel towards the North and between 66 and 97 degrees from East to West. The distance from North to South is approximately 2,000 miles, and it is almost as much from East to West at the widest point. India has nearly 10,000 miles of frontier separating it from four great countries: Pakistan, Afghanistan, China and Burma. Its territory (almost 1,260,000 sq. miles in extent) is almost as large as the whole of Central Europe excluding Russia. In 1962 it had a population of 450 million people, making it the second largest country in the world after China. Nearly one-seventh of the world's population is Indian. This huge population is often said to be the cause of the economic difficulties and the low standard of living in India. A detailed analysis will reveal that there are many other, more important factors which account for the low standard of living—factors which are not so easy to control as the movements of the population.

The time has come to sum up India's progress since the proclamation of Independence, and to see how her future is being shaped.

[1] At the end of 1961, the last colonial power in India—Portugal—had to leave Goa. In 1964 Indian territories under French rule became *de facto* a part of the Indian Union.

INDIA INDEPENDENT

PART ONE

THE YEARS FOLLOWING INDEPENDENCE

THIS first part of our study will deal with the situation in India immediately after Independence and in the years which followed; that is to say, by and large the period 1947–51. Some facts appertaining to this period have only recently been established but will nevertheless be included here. We shall also analyse the social and political structure which determined the developments studied in Part Two.

Before analysing each sector in detail, we shall give a summary of India's social and economic situation.

AN OUTLINE OF INDIA'S ECONOMIC AND SOCIAL SITUATION

The state of a country's economic development can be judged from the estimate of the National Income *per capita*. This is a useful but often deceptive method of judgement, for the distribution of income may be very uneven, giving an appreciable average figure in a case where the economy is not really developed; a situation often to be found in so-called underdeveloped countries. Mass statistics should be consulted with care.

National Income statistics also suffer when the level of monetarization is low, and in particular when agriculture is one of the principal activities and auto-consumption high. If these reservations (which must certainly be made where India's National Income statistics are concerned) are taken into account, we can give the following figures. For the year 1948–9, India's National Income was estimated to be 86·5 thousand million Rs. and the net domestic product at factor cost 86·7 thousand million Rs. This is equivalent to a National Income per person of 246·9 Rs., or about $50 (U.S.A.) per person per year, and constitutes one of the lowest National Incomes *per capita* of any country.[1]

[1] Before the devaluation of the rupee on January 5, 1966, the official gold standard stood at 53·6 rupees per 10 grams ($U.S. = 4·75 Rs.). After devaluation the official price of gold stands at 84·4 Rs. per 10 grams.

The India of 1947, under British rule, was very poor: it showed all the signs of what is today called an underdeveloped country. A structural crisis was approaching and could be foreseen from the growing contradiction between the increase of the birth-rate and the sluggishness of industrial development.

The Relative Importance of Various Industrial Activities

The low degree of economic development can be judged from the following official statistics (*v. Estimates of National Income 1948–9 to 1955–6*, C.S.O. p. 3). They show how income is distributed according to each type of industry.

DISTRIBUTION OF NATIONAL INCOME PER SECTOR (IN PERCENTAGE OF TOTAL INCOME) YEAR 1948–9 (1)

Agriculture	
1. Agriculture, stock-breeding and auxiliary activities	48·1
2. Forestry	0·7
3. Fisheries	0·3
4. *Agricultural total*	*49·1*
Mines, manufacturing industries, small enterprises	
5. Mines	0·7
6. Industrial establishments	6·3
7. Small enterprises	10·1
8. *Total*	*17·1*
Trade, transport and communications	
9. Postal services	0·3
10. Railways	2·0
11. Organized banks and insurance companies	0·6
12. Other trades and transports	15·6
13. *Trade etc. total*	*18·5*
Other Services	
14. Professions, teaching, health services, justice, etc.	5·0
15. Administration	4·6
16. Domestic services	1·6
17. Building rent	4·5
18. *Total of other services*	*15·7*
19. Net national product at factor cost	100·12
20. Transfers abroad	0·2
21. National Income	100·0

As can be seen, agricultural activities furnish nearly one half of the National Income. Mines, factories, and small craftsmen's work only give one-sixth, even lower than the figure for Trade, Transport and Communications, and hardly greater than that for Other Services.

The Capitalist Sector. Income from Property

The capitalist sector of the economy, based upon the exploitation of hired labour, can be considered to consist mainly of the mines, the industrial establishments, the railways, the organized banks and the insurance companies, as well as of some parts of the agricultural and commercial spheres. If we assume this to be the case, the portion absorbed by the capitalist sector (both public and private) in the income from agriculture, industry, trade and transports is probably in the region of 30 per cent. (2) The percentage includes both wages paid by the capitalist sector and also profits, interest, etc.

This relatively low figure should not be taken to indicate that the capitalist sector's rôle in the Indian economy is negligible. On the contrary, the enterprises of this sector play a decisive rôle in the dynamics of the economy. They control the essential part of financial transactions and have the greatest direct influence on the price-levels. These are the enterprises which determine the major part of investment (and therefore of future development) and which furnish the most important products in so far as expansion of productive capacity is concerned: notably coal, electricity, oil, cement, steel, machines, and the means of rapid transportation. They also produce the essential market goods in the field of agriculture.

The 30 per cent quoted above must obviously not be confused with the percentage of the National Income constituted by income from property. This 30 per cent includes wages but does not include the income from property coming from outside this sector, either in the form of ground rent or in the form of an even more pre-capitalist method of exploiting other people's labour.

If income from property and from capital are combined, these also form something like 30 per cent of the National Income.

The fact that only a relatively small part of the incomes mentioned above—less than half—comes from modern industry and trade shows the importance of pre-capitalist relationships in the Indian economy. The existence of such relationships on so large a scale is a great obstacle in the way of India's economic development: the income of landlords and

moneylenders harms the true producers (the peasants), who cannot both pay their debts and also better their means of production, while those who earn the income do not in general use it for productive investment but more often for buying land, for speculation, and for further money-lending. This is one reason why the part of the National Income used for investments was only 5·2 per cent in 1948–9 and 6·2 per cent in 1950–1. (*India 1957*, Delhi, 1957, p. 192.) We shall return to this point later.

The Working Force

The relative importance of the various industrial activities can also be seen from statistics showing the distribution of labour: from a sociological point of view these figures are of more interest than the figures for income in the table above.

DISTRIBUTION OF LABOUR (IN MILLIONS) 1950–1 (3)

		per cent
Agriculture	*103·6*	*72·3*
Mines	0·8	0·6
Industrial establishments	3·0	2·1
Small enterprises	11·5	8·0
Industry (total)	*15·3*	*10·7*
Railways and postal services	1·4	1·0
Organized bank and insurance companies	0·1	0·1
Other trades and transport	9·5	6·6
Total of trade and transport	*11·0*	*7·7*
Professions	6·4	4·5
Administration	3·9	2.7
Domestic services	2·9	2·0
Total services	*31·3*	*9·3*
	143·2	100·0

Seventy-two per cent of the total working force is occupied in agriculture, whereas the organized industries employ only about 2 per cent, a figure lower than the number of administrative workers (2·7 per cent). Less than 11 per cent of the working force is employed in all the forms of industry, less than 8 per cent in trade and transports, less than 10 per cent in other services. It is apparent that the country is not highly industrialized.

But despite lack of industrialization it is important, from a social point of view, to realize that there are a large number of wage-earners in the working population: nearly 38 per cent in fact. Among these, industrial wage-earners are a weak minority (about 11 per cent including Transport and Communications), the large majority being agricultural labourers. (4)

The high percentage of agricultural workers is obviously not the result of a modern capitalist agricultural system, but is simply evidence of agricultural overpopulation. A large proportion of the Indian peasantry does not own land (or owns practically none) and does not always manage to find employment.

Little industrialization, low agricultural output, a low figure of National Income *per capita*, very sluggish economic progress, considerable unemployment and under-employment: these are some of the main characteristics of India's social and economic situation just after Independence. We shall have to analyse the situation in greater detail in order to see the political and social implications. That analysis will constitute the first part of this work: in the second part we shall see how the situation of India changed between the time of Independence and the present day.

NOTES TO THE OUTLINE

(1) For the years following Independence, the main source of information about the Indian National Income is the *First Report of the National Income Committee* (1st R.N.I.C.), published in April 1951. It gives an estimate of the National Income for the year 1948–9. The best Indian specialists helped to prepare the report. Professor P. C. Mahalanobis was President of the Committee. Professor V. K. R. V. Rao (an eminent specialist on National Income questions) and Professor D. R. Gadgil also sat on the Committee, which was advised by a number of foreign experts including Professor S. Kuznets and Mr. J. R. N. Stone. However, as is pointed out in the report, it is based on statistics which are incomplete or which have an unknown margin of error. The figures should therefore be considered as temporary approximations. In April 1954, a more detailed report was published, the *Final Report of the National Income Committee* (F.R.N.I.C.). It gives estimates for 1948–9 and for 1950–1.

These are based on the same imperfect statistics. Since then, the C.S.O (Central Statistical Organization) has published yearly 'Estimates of th National Income'. These are based on the first two reports, and there ha been no improvement in the methods of estimation. It is probable tha the statistics will grow steadily less meaningful.

The concept of National Income as it is understood in India include all 'services', including the services of the administration, the police etc.

Two attempts have been made to estimate the Indian National In come by the net value of material output. One is by M. Mukherjee ('Th Value of Material Production in India, 1948–9', working paper 46 in th series *Studies Relating to Planning for National Development*, India Statistical Institute). It puts the National Income at 83 per cent of th official estimate. S. Patel is the author of the other attempt (*v.* 'Growth in Income and Investment in India and China, 1952–60' in *India Economic Review*, February 1957, p. 53 *et seq.*). His estimate for the yea 1952 is 84 per cent of the official figure.

The 'Industrial Establishments' on the whole correspond to the modern industries, and the 'Small Enterprises' to small industry and the crafts; but there is no absolute rule. Since 1948, the official definition of an 'Industrial Establishment' comes to mean those establishments employing ten or more workers using machine force or twenty or more without. 'Organized' banks are distinguished from 'indigenous' banks which is often another name for money-lenders. Rent covers actual or supposed income from leases.

(2) This 30 per cent is the sum of the 16 per cent of the Indian National Revenue provided by Mining, Industrial Establishments, Communica-tions, Railways, Capitalist Trade, the Organized Banks and Insurance Companies plus the 13 or 14 per cent which is roughly the amount provided by capitalist forms of agriculture (corresponding to the use of hired labour on the larger holdings; this point is discussed in Chapter II).

(3) This table is based on the *F.R.N.I.C.*, p. 23. The year 1950–1 was chosen because it is close to the 1951 census. The percentages are not very different from those of 1948–9.

(4) This percentage is not calculated from the 1951 census but from the results of a report on agricultural labourers. (*v. Agricultural Labour Enquiry*, Delhi, 1952.)

In her work entitled, *Working Force Size and Occupational Struc-*

ture in India, 1950–1 (I.S.I., Bombay 1960, printed by *Sankhya*), Mrs Alice Thorner has studied the complicated problems of employment and the classification of occupations. She gives an excellent table of the employment structure.

I

AGRICULTURAL PRODUCTION AND ITS PROBLEMS (1)

THE AGRICULTURAL situation just after Independence was particularly bad, with little increase in the production of foodgrains while the population was increasing rapidly.

The 1943 Bengal famine was then a relatively recent catastrophe, and the memories of the millions of deaths and the epidemics which followed the famine were still present in the minds of those who were responsible for economic planning.

The official Commission of Enquiry estimated that 1·5 million deaths were caused by the famine. Professor K. P. Chattopadhyaya's estimate, based on research which he himself directed, is nearer 3·5 million. More than a million are thought to have died in the subsequent epidemics.[1] In fact, the famine was caused more by the bad organization of food supplies than by a serious food shortage. The shortage has been estimated at 1·4 million tons (2 per cent of the average Indian harvest), but no really effective measure was taken either to send a sufficient quantity of supplies to Bengal or to combat speculation and stocking. Whatever its causes may have been, the famine emphasized the gravity of agricultural problems.

Statistics confirm that there is a chronic state of undernourishment in India, which has been rapidly worsening. It has been estimated that from 1896–1905 until Independence, the net value of annual foodgrain production remained stationary at a level varying between 27 and 28 thousand million Rs. (at the 1952–3 price-level) with a slight tendency towards a decrease in production. (2)

In 1949–50, the Indian Union's cereal production was estimated at 45 million tons, 39·5 million tons being available for consumption. (See the reports on the 1st Five Year Plan.)[2]

Imports and drain on stocks being taken into consideration, the

[1] See also 'A Sample Survey of the After Effects of the Bengal Famine of 1943' in *Sankhya*, vol. 7, part 4, 1946.

[2] Agricultural production statistics are particularly inaccurate. See Chapter VIII.

quantity available to consumers in 1949–50 was 42·4 million tons, according to the official statistics; this means a daily ration per adult of 13·4 oz. (425 grams). According to dieticians, the minimum ration should be 15·2 oz. (475 grams). This would correspond to an average consumption of at least 16·4 to 16·8 oz. (510 to 520 grams) if the poorest elements of the population, who consume less than the average, are to have the minimum ration.

Even if later estimates of a little less than 14·8 oz. (460 grams) per person are taken to be true (see Chapter VIII), the figure is still 10 per cent lower than it should be if the low income groups are to have the minimum ration. In point of fact, these groups live on quasi-famine rations.[1] The situation was such that war rationing had to be maintained.

Even this low level of consumption required massive importation. From 1948 to 1951, imports of cereals tended to increase: in 1951, they rose to 4·7 million tons, which was about 10 per cent of domestic production. These and other food imports cost India more than 2 thousand million Rs. (in 1951) and thus counterbalanced more than 20 per cent of her export receipts. Such a situation in a country where more than 70 per cent of the population is occupied in agriculture called for drastic action. The standard of the food supply and sanitation had to be raised, the volume of agricultural imports had to be diminished, the average income of the rural population—extremely low owing to the insufficient output per person—had to be increased.

The Committee of Research into the National Income estimated that the net value of production per working person on the eve of the First Five Year Plan was approximately 400 to 500 Rs. a year; and thus, that the average income *per capita* of those living from agricultural work was 150 to 200 Rs. a year. This income was very unequally distributed.

It was quite possible to make far-reaching changes in the agricultural situation. The land available for cultivation is not insufficient, being assessed by the F.A.O. at nearly 400 million acres. In comparison with the population as a whole, or even with those living from agriculture,[2]

[1] According to C.E.A.E.O. estimates, in 1949–50 the Indian ration was of 1,620 calories against 1,970 before the war, against more than 3,000 in the U.S.A., nearly 3,000 in France and 2,400 in Egypt. (See *Studies on Asia and the Far East*, 1952, p. 83.)

[2] In 1951 India possessed 0·86 acres of arable land per inhabitant. The corresponding figure for China is 0·47 acres and for France, about 1·2 acres. The amount of arable land per person living from agriculture is about 1·2 acres in India as against 0·55 in China, 0·62 in Viet Nam, 0·33 in Egypt.

this figure is certainly not very high and emphasizes the need for industrialization; on the other hand, it is not low enough to justify the weakness of agricultural production and productivity.

We shall speak later of stock-breeding. Let us say at once that between 1896 and 1936–45, the only large increase in agricultural production was in the field of industrial crops. According to S. Patel's estimate, towards the time of Independence the value of these products was about 30 per cent of the value of agricultural production. This 30 per cent was practically double the figure for 1896–1905. (3)

Despite the development of industrial crops, the gross value of agricultural production (of both food and industrial crops) increased by about 12 per cent between the beginning of the century and Independence, while India's population grew by more than 30 per cent. There is some cause to speak of an overall weakness in India's agriculture.

The weakness is explained mainly by the low yield of the land. Paddy fields yielded only about 14 tons of rice per acre just before the First Plan compared to China's figure of 16 at the same period, 17·5 in Burma, 50 in Egypt and Japan. India's yield of wheat per acre was 8·5 tons during the same period, while China's was 8·75, and Egypt's and Japan's was 22·5. Few countries had a lower average yield of wheat than India.

Agronomists admit that the poor yield in India is not due to the natural quality of the soil, and that it could be increased. Experience has in fact shown that it is technically possible to make improvements.

The real question lies in the causes of the agricultural situation which has just been summarized. There are two categories: technical and social. We shall examine the latter type of cause in Chapter II.

Just before the start of the First Plan, four technical factors were considered to have a direct influence on the yield of crops in India: firstly, the lack of water and its irregular supply; secondly, the lack of fertilization; thirdly, the excessive number of cattle; and fourthly, the peasants' poor understanding of agricultural techniques.

Water Difficulties

India's rainfall is fairly high (4 feet or 1·25 m. a year) but is very unevenly distributed: only 4·9 ins. (12·5 cm.) in the semi-desert regions of the North-West and as much as 8 feet (2.5 m.) in Assam. In Central India, the yearly rainfall is about 4 feet, and in the Peninsula around 2 feet 6 ins. (75 cm.) except on the coast where it is higher. It follows that

lack of water should not be a hindrance to agricultural production over most of the surface of the country. But the irregularity of the rainfall and its seasonal nature do cause difficulties.

Hence the low average yield and the extreme irregularity of production, for even when there is normal rainfall over India as a whole, there will often be a lack of water in some regions, accompanied by too much rainfall, and consequently floods, in others. Thus, control of the water supply is obviously an essential. Dams must be built, diversion canals and artificial lakes created, and wells sunk.

Despite some progress in this field before Partition,[1] the Indian Union just after Independence was able to irrigate only about 12 per cent of all potentially arable land and less than 16 per cent of the land actually under cultivation (net amount; that is to say, not counting more than once land that is able to produce several crops in the year). Nevertheless, 47 million acres of irrigated land is a very large amount and places India second in world figures. The figure is low in comparison with the extent of land actually cultivated.

The low percentage of irrigated surface is the result of insufficient efforts in this direction and also of Partition. Pakistan possesses 31 per cent of the irrigated land belonging to the former colony, but only 16 per cent of the cultivated land.

Using the above figures and considering the water resources available for irrigation (although the latter are not precisely located, especially as far as subterranean water is concerned), the Planning Commission estimated that the irrigated surface should be doubled in the twenty years after 1950–1. Great results are expected from irrigation projects. Average output should increase by 50 per cent in some regions and by 200 to 300 per cent in others. Fertile lands too dry to be cultivated at present could then be used. Other land could produce two or three crops a year. Use of chemical fertilizers, too dangerous where the land lacked water, would at last be practicable.

Increased water control is therefore necessary if output is to rise appreciably. The Planning Commission states that the most effective way to increase harvests in India is to give more water to cultivated land by means of irrigation.

[1] Most of the development was done by the Government, but did not compensate for the deterioration in the traditional system of irrigation, which was accelerated by the land system set up under British rule.

The Problem of Fertilizers

The question of fertilizers is as important to India's economy as is th question of irrigation. Recent soil analyses have shown that in man regions the soil is in a bad state of exhaustion; there is not enoug renewal of the essential elements in the soil. Organic by-products an animal or human manure are not used as extensively as they are i Europe or China.

One of the reasons for this is the lack of fuel: the Indian peasant ha to burn cow-dung in order to cook his food. About half of the tot quantity of cow-dung is used in this way.

Likewise, animal bones and blood are little used as fertilizers. Onl 150,000 tons of a possible total of 600,000 tons of animal bones ar collected each year, and a third of those collected are exported.

The causes of this situation are many. Some are related to th extreme misery of the rural classes. The great majority of the peasantr have not the means to buy products made from animal waste, an therefore the industrialists who manufacture these products fin it more profitable to export them. The system of land tenures i another important cause, as we shall see later. Religious beliefs an various prejudices also play their part, but it would be untrue t say that this is the main reason (although one often hears that theor advanced).

Use of artificial fertilizers is also limited by the peasantry's wea buying power and by the prevailing system of land tenures. A high yiel can be expected from some fertilizers—an extra yield of from 2 to 2· tons of cereals—yet the quantities used in Indian agriculture just befor the start of the First Plan were ridiculously small. They have been esti- mated at less than 60,000 tons of nitrogenous fertilizers (measured in nitrogen), less than 11,000 tons of phosphoric acid, and less than 3,000 tons of potassium.

Confronted with such low figures, it is fairly surprising that the Commission proposed a very modest increase in the amounts of ferti- lizers to be used. (4)

Stock-breeding and Forestry

The main problem where stock-breeding is concerned has long been connected with large numbers of animals (in particular of bovines) and not with a lack of cattle. There are too many, and they cannot all find enough grazing on land not used for food or industrial crops. The

table below gives the numbers of large cattle according to the 1951 count, the first after Partition.

The number of milking cattle is estimated to be less than 30 million. (6)

There are also about 100 million other types of animals: goats, sheep, horses, etc.

BOVINE CATTLE IN 1951 (IN MILLIONS) (5)

Cows for breeding		46·34
Breeding bulls		0·65
Male	work stock	58·41
Female	work stock	2·31
Young	work stock	43·49
Others		3·89
		155·09
Cows for breeding		20·99
Breeding bulls		0·31
Male	work stock	6·01
Female	work stock	0·53
Young	work stock	14·73
Others		0·78
		43·35

As can be seen, there are about 23 bovines to the square mile and about 55 per hundred inhabitants. These are very high figures: in Switzerland, a country of cattle-breeding and dairy farming, there are 15 bovines per square mile and 36 per hundred inhabitants. The number of bovines, therefore, seems excessive when one realizes that both pasturage (in the true sense of the word) and fodder crops are practically non-existent. It is estimated that at present there is a 20 to 30 per cent excess of bovines, and this is probably an underestimation.

The overabundance of cattle is the cause of their low productivity. In 1951, India's immense herd—the largest in the world— produced only about 17 million tons of milk. This means an average potential con- sumption of about 5 oz. per person per day.

In England and America, there is a tendency to explain away Indi agricultural and economic difficulties by mentioning the excessi number of cattle and by explaining the surplus in terms of religio taboos on the slaughter of cows and on the use of beef for human co sumption. But this is an oversimplification.

On the one hand, the harm caused by excess cattle is not enough itself to explain India's poor standard of living.[1] On the other hand, th economic reasons for the cattle surplus are at least as important as th religious reasons. The former result from a vicious circle which is pa of the present social structure of the country. The cattle are the princip means of haulage available. They pull the ploughs, turn the water-wheel transport produce from one village to another. A smaller and better-fe herd would certainly give more milk, but innumerable difficulties woul arise if the number of cattle was greatly reduced.

The situation can be summarized as follows:

1. The draught animals are badly fed and must therefore be mor numerous.

2. There must consequently be a larger number of breeding-cows t restock the herd.

3. The cows, being too numerous also, are underfed and thei breeding and milk-giving capacities suffer. Therefore the numbers o cows for breeding and milking must rise once again.

These economic factors make it very difficult to reduce the bovin herd. If it were 30 per cent smaller, the remaining, better-fed animal could do as much work as the existing herd; fewer cows would be neede for reproduction; more animals would be freed for milk production an would produce more milk.

The real problem lies, then, in breaking the vicious circle. This is al the more difficult as each peasant needs his own cattle; they mean food work, and also capital; a couple of oxen, even of poor quality, are worth at least 250 Rs. and a pair of good ones 2,000 Rs. If he has no cattle, he risks becoming dependent on a richer peasant and losing the small source of monetary income which he gains from the sale of a few pints of milk. The only solution would be a structural change and the

[1] Pierre Gourou writes of India: 'She stupidly wastes her resources by raising useless cattle; yet their elegant forms are a pleasure to the eye, and their presence is comforting. Is it really more costly, and isn't it nobler, than using an immense quantity of the National Income in absorbing hundreds of gallons of aperitifs and liqueurs or betting on horses and dogs?' (*L'Asie*, Paris, 1953, p. 400).

development of co-operatives. We should again mention the use of cow-dung for fuel purposes and the consequent waste of precious fertilizers.

The excessive number of cattle is also largely responsible for deforestation, and lack of wood brings us back to the burning of cow-dung and the fertilizer problem. Once again, it seems necessary and even economically advantageous to maintain a large number of cattle. The lack of fuel means that animals which give even very small quantities of milk are 'economically justifiable' in the case of the individual peasant because of the market value of combustible cow-dung.

We shall see later how India has tried to solve the problem of surplus cattle since Independence, and how poor the results of her efforts have been.

A final word on deforestry. Forests cover only 15 per cent of the land, whereas 30 to 33 per cent is considered to be a desirable percentage. Deforestry causes lack of fuel, has a bad effect on the rainfall, and therefore affects the hydraulic situation. It is impossible to estimate the losses to India's economy resulting from deforestation, but it is certain that more extensive forests would ease the difficulties entailed by lack of irrigation.

The Problem of Agricultural Techniques

It is widely agreed that a lack of knowledge in agricultural affairs at almost all levels of the population is another of the principal causes of India's low agricultural output.

Little useful work has been carried out by technical and research services.[1] Little has been done to improve agricultural implements. Not enough has been known about the nature of Indian soils, which make it impossible to plan a scientific distribution of regional crop-growing and a satisfactory system of crop-rotation.

The farmers are not familiar with the methods and techniques which might be used to increase output; this is because of the illiteracy widespread in country districts. Only a little more than 17 per cent of the total population knows how to read and write. In only some 20,000

[1] This situation is typical of colonial and ex-colonial countries. The difference in understanding between the farmer and the research-worker is so great that the latter tends to prefer pure research. Here is what happened in India (cf. *F.F.Y.P.*, p. 269). Indian research establishments (whose work has been co-ordinated since 1930 by the Indian Council of Agricultural Research, the I.C.A.R.) have organized a great deal of excellent research by eminent research workers, but very little on a practical basis.

villages—less than 4 per cent of the 550,000 villages in India—is prima
education compulsory. Only 30 per cent of the country children fro
the ages of 6 to 11 went to school at the beginning of the First Plan, an
less than 40 per cent of these children stayed at school for four years. I
other words, the great majority of country children remained as illitera
as their parents.

The cause of such neglect can be traced to the educational policy o
the British authorities. Their aim seems to have been to fill the subordi
nate administrative posts essential for the continuance of a 'good' colonia
administration as well as the lower ranks of what were considered to b
essential industries. Their aim was never to raise the educationa
standard of the whole population. In the towns, a great deal of room wa
left for private education, which often tended to be very costly.

There was little effort to train agricultural technicians. In 1950–1, onl
1,847 of the 154,000 engineers or qualified technicians came from th
agricultural schools. (7)

School attendance suffered from the low standard of living in th
country and from the exploitation of the peasant classes. (We shal
return to this point in the following chapter.) The children were badl
nourished and badly clothed. Parents could often hardly afford text-
books or exercise books, and at certain times of the year they expecte
their children to do small jobs (even if these entailed no more tha
guarding the fields).

This state of affairs was hardly favourable to agricultural developmen
of a technical kind. Not only were the peasant classes left without th
most elementary modern education, but they were hardly ever induced
by example or demonstration, to adopt better methods of production.
It can be said that practical agricultural technology was non-existent.

To the factors of low productivity and stationary or even decreasing
output (owing to soil exhaustion), some observers have seen fit to add a
third factor: the obstinacy of the Indian peasant, his unimaginative and
traditionalistic character which leads him to shun innovations. The
Indian peasant, like those of most other countries, may indeed have
something of these traits in his nature, and they would certainly be en-
couraged by the lack of any modern scientific training. But nothing
proves that these are the dominant traits of his character. The contrary
may in fact be true, as has been affirmed by Dr Harold H. Mann,
Director of Agriculture in Bombay from 1921 to 1927, who is noted for
his understanding of the Indian countryside and particularly well placed

to judge the peasants' reactions. Dr Mann does not hesitate to write that:

> 'it would really seem to be true that a readiness to adopt new methods is the characteristic of the Indian cultivators, provided they are *proved* to . . . give a return which will warrant the borrowing of capital at high interest.'

The last point which Dr Mann makes is particularly important because it emphasizes the fact that the technical weaknesses of Indian agriculture (which are undeniable) are due to factors lying outside the technical field and are in fact due to social and economic faults in the system of land tenures, usury, etc. These factors will be better understood when we study the social and economic structure of rural India just after Independence.

NOTES TO CHAPTER I

(1) We have not attempted to analyse the whole of agricultural production. Our aim in the first two chapters is firstly, to point out the most urgent agricultural problems in the years following Independence, and secondly, to examine the main factors responsible for the agricultural situation at that period. In Chapter VIII we shall see how the output of the most important agricultural products has changed since Independence.

(2) See S. Patel's estimates, mainly based on: Georges Blyn's figures for agricultural production quoted by Daniel Thorner in *Economic Growth: Brazil, India, Japan*, S. S. Kuznets (editor), Duke University Press, 1955; and the *F.R.N.I.C.* (*v.* Patel, 'Changes in Output and Income', in the *Indian Economic Journal*, January 1958, pp. 241–2).

Georges Blyn finished research for *Agricultural Trends in India, 1891–1947: Output, Welfare and Productivity* in May 1961. When this work is finally published, it will be of the greatest importance to those who wish to study Indian agriculture and its history.

(3) On the marketing of agricultural production, see the *Foodgrain Enquiry Report*, New Delhi, 1957, pp. 188–9, and the introduction by M. A. Maximov and V. G. Rastianikov to the Russian edition of D. Thorner's book on the agrarian reforms, *Agrarny Stroy Indii*, Moscow, 1959.

(4) On the Planning Commission's position just before the start of t[he] 1st Plan see *F.F.Y.P.*, p. 212 and pp. 254 *seq.*

(5) *Second Five Year Plan*, Govt. of India, 1956, pp. 280–1.

(6) The following figures for the two types of bovine cattle in 19[5] are to be found in *Indian Agriculture in Brief*, *op. cit.*, p. 39.

Milking cattle	29·2 million
Draught cattle	27·3 ,,
Males for breeding	1·0 ,,
Others	101·0 ,,
Total	158·5 million

(7) *v. F.F.Y.P.* Chapter 33 (Education) and P. C. Mahalanobis, *[A] Review of Recent Developments in the Organization of Science in Indi[a]*, Calcutta, September 1959 (mimeographed).

(8) Harold H. Mann, 'The Agriculture of India' in *Annals of th[e] American Academy*, CXLV, September 1929, pt. II, 80, quoted b[y] Thorner, *op. cit.*

II

THE SOCIAL AND ECONOMIC STRUCTURE OF RURAL INDIA

THE SOCIAL structure of rural India varies from region to region; even [i]n a single region there may be many different factors to be taken into [c]onsideration. The cause of most variations is the long history of India: [n]ew structures replace old, conditions change according to the region, but [o]ften the old structures remain, intermixed with the new. Any general [s]tatement on the subject of rural structures is therefore bound to be inaccurate unless geographical specifications are given. However, if we [a]re to see the problems as a whole, an attempt at generalization will have [t]o be made.

Another point must be borne in mind. Throughout its existence, the [c]olonial system grafted new legal ties and property rights onto the [e]xisting framework of production. The new legislation was not particularly designed to increase output. More often than not, the laws tended to create privileged social classes by attempting to make them the champions of colonial order. When this was not the case, the laws simply enforced the *status quo*. It had to be decided (as precisely as possible) just who should pay land taxes, for the latter were at the time the State's main financial resource.

The legal system thus created was extremely complex and has been a major obstacle in the way of economic development.

I. LEGAL TIES AND PROPERTY RIGHTS

As we have pointed out above, our description of legal ties and property rights at the time of Independence has to be highly generalized. Even so, there must be a minimum of geographical and historical data.

First, one must remember that there was already a complex and varied system of land tenure and exploitation before the British arrived. By and large, North and North-West India had a system of collective land tenure by village communities, the co-owners constituting a 'fraternity'

from which the servant castes were usually excluded. In the rest of country, there were individual land-owners of varying importance.

The British administration recognized some of the rights of individ landholders; it also created new types of landholders with rig which were to all intents and purposes equivalent to those of landlords.

The most far-reaching change took place in the seventeenth centu on the initiative of Lord Cornwallis, in vast regions of Bengal, Bih and Orissa, and in certain districts of Madras. The East India Compa transformed the existing tax collectors into landed proprietors and original owners of the land into tenants who could be expropriated at owner's will. The main form of this change lay in what was called *Zamindari* system.

The use of the term 'landlords' in the case of the *Zamindars* has of been contested on the grounds that the land ultimately belonged to State. For a long time this was merely a legal fiction. In fact all the pow which are really those of a landlord had been ceded to the *Zaminda* Lord Cornwallis himself declared: 'I am fully convinced that the *Zam dars* have the most undeniable rights to the land.'

However, the idea of the State's right to the land always remained the minds of many Indians, which explains why the laws could inclu the notion of 'dispossession' of the *Zamindars* when the system w recently abolished.

Many of those who have studied the changes made by the Briti authorities in the agrarian system admit that one of the objectives was create a ruling class where none had existed before. The new class wou support British rule, since it owed its position to the British.

The *Zamindari* system or a system like it was set up in only one part India: the other parts had different systems, for example the *Mahalwa* and *Rayatwari* systems.

Under the *Mahalwari* system, the land belonged to a small group families who were usually the most powerful in their region and wh were responsible for paying rent to the State.

The systems mentioned above are further complicated by the creatio of smaller land-tenures and by the letting-out of land. The right attached to these subdivisions of land have been more or less ratified b law; the laws in their turn have created new rights, not to the land itse but to shares of the produce from the land.

Those who have acquired such rights, including the *Zamindars*, ar

ften referred to by the name of 'intermediaries' or 'middlemen', as they re the link between the farmer and the State over the payment of land-ax. The creation of minor tenures was intensified by the demand for and (all the greater as there is too little industrial development) and by he fact that landowners could demand more and more from the farmer. What the farmer pays is in fact divided among those who hold the and-rights or tenures. This payment in order to obtain the right to arm is a 'land rent' in the economic sense of the word, and it is this rent which is shared out among the more-favoured landowners.

In Bengal there were extreme cases of up to forty different successive ypes of landowner. The lowest of them all, the only one who actually works the land, has the most limited rights and provides a livelihood for a whole hierarchy of parasites.

The creation of intermediary land-tenures was particularly frequent in the *Zamindari* regions. But *Mahalwari* and *Rayatwari* regions were by no means free from it.

Legislation during the colonial period made the different land and rent rights negotiable. A large number of the true cultivators then sold their rights under the pressure of circumstances, and it was the money-lender, the merchant, or the richer farmers who benefited. There arose a new class of non-farming landowners, and the land continued to be worked by the former cultivator, now become a mere tenant.

Little by little, different sorts of rights were created throughout India which allowed their possessors to live from land rent; the immediate producer—who payed the rent—could retain only that small portion of his produce sufficient to keep him from starving.

An investigation of conditions in the Punjab showed that in 1940 about 50 per cent of those working the land were only evictable tenants who paid a rent sometimes as high as 80 per cent of the net product of the land. (1)

Types of land tenure at the time of Independence were many and various: the right of tenure or occupation might be temporary or permanent; mortgageable or not, transferable at death or not. And, as we have remarked above, there may be a whole hierarchy of tenures on the same parcel of land.

There is another important point to be made: not all of the many 'intermediate' landowners have large incomes (not even those of high rank such as *Zamindars* and *Jagindars*). Some control vast estates (sometimes as large as the Princely States) and might be thought absolute

monarchs,[1] others have only small fixed incomes, receiving a relati
small rent.

Unfortunately, no complete survey exists to tell us how land ri
and rents were distributed throughout India at this period. There
only piecemeal indications which are not worth analysing here.

2. THE SOCIAL RELATIONS OF PRODUCTION

It is also necessary to class those who take part in agricultural product
according to their rôle in the process. Daniel Thorner has suggeste
classification which makes use of Indian terms to distinguish differ
social categories. (2)

We shall first explain this method which allows us to distingu
three basic social groups:

1. The class of agricultural workers or *Mazdoors*. They sometin
own small quantities of land which will not produce enough for th
to live on. They may be paid in money or kind, or else receive a p
centage of the harvest from the land that they help to cultivate.

2. The class of *Kisan* or peasant workers. They may own land
directly or be tenants with more or less extensive rights, sometimes w
very few rights indeed, the latter type of tenure being more comm
Those who have the fewest rights are the cropsharers, who are usua
given different parcels of land over the years.

3. The class of *Maliks*. The *Malik* may receive income in money
kind, whether he lets his land to tenant-farmers or cropsharers, or wheth
he works his land by means of hired labour. In the latter case, he m
manage the farm himself or leave the job to an overseer or head servan

The main difference between the *Kisan* and the *Malik* is that t
Kisan always works his own land, which may be quite small in extent.
he lets out portions of it or uses hired labour, the income earned will
less than that from his own work.

The *Malik*'s status varies considerably, both as to his contracts wi
hired labour and as to the sort of land tenure he possesses. Exactly whic

[1] In practice, the *Zamindars* who controlled one or several villages had t
'rights' they cared to impose. They demanded 'chores' (*begar*) from the peasant
that is to say, the payment of rent in work. They also demanded payments a
forfeitures in money or in kind. These were customary if the *Zamindar* marrie
for example, when one of his children was born, when he bought an elephant o
car, even when he received important guests. . . . (cf. H. D. Malaviya, *La
Reforms in India*, pp. 103–4).

sort of land tenure is of little importance, provided it allows him to acquire the main part of his income from land which he does not work personally.

These three classes were long the main element of the social structure in rural India. Even after Independence, this system was still widespread and must be understood if production relations are to be analysed.

However, changes have everywhere affected the relationship between class and agricultural output. In some cases, the relationships among the agriculturists themselves have been altered.

The main change has been the transformation of the *Malik* into a rural capitalist: that is to say, he no longer lives on land rent, but manages the process of production by hiring paid labour and by improving his means of production.

Changes of this sort can produce agricultural capitalism—all the more easily since an agricultural proletariat already exists. The only adverse factor is the existence of semi-feudal relationships in the field of production. Most of the basic producers are neither peasant proprietors nor wage-earners paid by capitalist landowners, but hold their land on a very unsure basis, having to hand over nearly all their produce to others with rights greater than their own. There is generally no corresponding productive investment of these excessive tithes.

There has been a certain amount of argument about the adjective 'semi-feudal' when applied to these obligations. It is criticized on the ground that the adjective does not express the original nature of India's agrarian structure. The criticism seems hardly justified from the point of view of economic classification. Whatever may have been the original nature of production relations in India, their result has enough of the characteristics of the declining feudal system to be called semi-feudal. Typical of the situation is the absence of a labour market in a large part of the rural sector; the personal subservience of the immediate producer to the landowner; the excessive importance of land rent; the underdeveloped marketing system resulting in little social division of labour, a low rate of accumulation, and the use of produce mainly to satisfy immediate needs.

These conditions are, of course, changing. The trend, as we shall see, is towards capitalism. Market production is going up, social division of labour is being practised, capital formation and wage payment are on the increase.

The sort of capitalism which is invading the rural districts is not only,

or even principally, agricultural capitalism. It is to be seen mainly in form of lending and merchant capital. This sort of capital has a nega effect on the progress of true agricultural capitalism, at least to be with. It attracts rural capital by the possibility of highly profitable inve ment.

Our picture of India's agricultural system just after Independen would be incomplete if we did not try to decide what is the numeri importance of each social category or class, and how agricultural inco is distributed. Unfortunately, this raises some awkward problems.

Statistics are not lacking, but they are hardly dependable. Nor are t concepts used by the statisticians quite satisfactory from a social or economic point of view. (3)

The concepts and methods in question can be studied from those us in the 1951 Census:

> 'By means of these definitions, the class of non-cultivating pr prietors, usually considered the bane of Indian agriculture and t prime target of land reform measures, has been reduced to a miscella of *raiyats* and other tenants who for temporary reasons are unable cultivate their own holdings, plus a small number of *Zamindars* w are legally disentitled to cultivate. . . . One is inclined to wond whether the agrarian categories of the 1951 Census were frame primarily for collecting economic statistics or for moulding publ opinion against land reform.' (4)

It would take too long to explain why the concepts and methods of th 1951 Census were found to give deceptive results. Yet although there ca be no hesitation in condemning them, it is not easy to give any othe suitable figures. We shall attempt to do so, however, in the followin pages. The reader should understand that our picture of social relation- ships after Independence is not as detailed as we should like. Its mai faults are as follows:

1. It is based on statistics which are often neither representative no exact (particularly in the case of the *Rural Credit Survey*'s statistics).
2. The statistics used do not apply to the years immediately following Independence and are affected by certain social changes which have taken place since.
3. The definitions used when the statistics were being collected were not always co-ordinated. More or less arbitrary assimilations had to be made.
4. Considering the nature of the material used for statistics, it was not useful or even possible to take the analysis any further by making dis- tinctions based on soil-fertility, irrigation possibilities, etc.
5. It was not possible to evaluate the importance of capitalist agricul- ture. The analysis therefore shows figures for only three categories: agricultural labourers (*Mazdoors*), *Kisans*, and *Maliks*. This is an impor- tant omission, for the rise of capitalist agriculture in India is worth studying with great care. We shall discuss this question briefly.

The Agricultural Labourers

The figures for agricultural labourers are certainly the most complete. They do not come from the 1951 Census, but from an enquiry which we have already quoted (the 'Agricltuural Labour Enquiry'). According to this enquiry, agricultural labuorers constituted 38 per cent of the agricultural working force.

Their standard of living was very low. The average income earned by a family of agricultural labourers was 447 Rs. a year (according to the *A.L.E.*); of this, 64·2 per cent came from paid agricultural work, 11·9 per cent from non-agricultural wages, 13·4 per cent from pieces of land which they could use, and 10·5 per cent from non-specified sources (probably from domestic work, transportation, etc.).(5)

Comparison with the National Income *per capita* for the same year (265·2 Rs.) shows how low the agricultural labourer's income really was. The 'average' family consisted of 4·3 persons; the income per person of an agricultural labourer's family was therefore 104 Rs.—only 39 per cent of the National Income *per capita*—and this in a country whose National Income *per capita* is one of the lowest in the world.

The annual income of agricultural labourers in the strict sense would have been about 286 Rs. per family, or the average of 143 Rs. per worker.[1]

Calculated from the above figures, the total earned by families of agri- cultural labourers including other than agricultural income was 7·9 thousand million Rs. in 1950–1. This was only 8·3 per cent of India's National Income (for a group comprising 38 per cent of the agricultural population and 22·7 per cent of the total of urban and rural families); 6·9 thousand million Rs. came from agriculture alone.

It is evident that in the years following Independence one of the

[1] The above figures show that there was a loss of about 24 per cent in the real wages of agricultural labourers in comparison with the figures for 1934 (cf. *A.L.E.*, *I.S.*).

country's main productive forces—the enormous mass of agricultu labourers—was condemned to spend itself almost in vain, unable increase its output to any appreciable extent.

From both an economic and a social point of view, a quick change these conditions is absolutely essential.

The Kisans and the Maliks

The second of the agricultural classes consists of those peasants who wo their own land and earn the major part of their income in this way.

For the reasons set out above, it is difficult to estimate the numbers the workers or their share of the National Income. Using the statisti available, we can only form working hypotheses.

It seems that the *Kisan* families numbered about 45 per cent of all t peasant families and that they possessed about 43 per cent of the lar under cultivation.

The *Maliks* numbered about 17 per cent of all families and possesse more than half of the land under cultivation. The following tab summarizes most of our hypothetical figures and the conclusions draw from them, given existing statistics. (6)

HOLDINGS AND INCOMES OF KISANS AND MALIKS

	Kisans	*Maliks*
Minimum size of holdings (in acres)[1]	2·72	16·1
Maximum size of holdings (in acres)[1]	16·1	(no limit)
Per cent of peasant families in each group	45	17
Agricultural contributions to National Income*	20 to 21	26 to 27
Aggregate net income (subtracting the net amount of rent from interest earned and wages)*	14 to 15	25 to 26
Average annual income per family (in Rs. in 1950–1)*	700	3,200
Average annual income per person (in Rs. in 1950–1)*	130	530

* = In thousand million Rs. in 1950–1.

[1] The size is obviously variable, and depends on the sort of crops under cultivation, the method of irrigation used, etc. These figures are merely rough indications.

We repeat that these figures are only rough approximations. Their ain interest is that from them one can see how low was the *Kisan*'s come and how much of the total—about half of it in fact—falls into the ands of 17 per cent of the *Malik* families. Although the *Malik*'s income not exceptional in comparison with that of the urban bourgeoisie, it is ertainly far higher than that of the peasant masses. The latter, with their retched living conditions, are in fact the source of the *Malik*'s power nd income.

The income which the *Maliks* derive from rural India is not in general roductively invested, and this is one of the factors retarding the develop- ent of India's agriculture. Another problem which arises here is that of apitalist farming.

apitalist Farming

There are not enough statistics to judge how many capitalist holdings xist or how much of the aggregate income they provide. But we do now the amount of income earned by large families employing workers with no other income than their wages. According to the *A.L.E.*, n 1950–1 about half of all agricultural labourers were 'pure wage- owners'. Assuming that the proportion was the same in the case of the abourers employed by the *Maliks*, one can say that approximately half of the income from *Malik* farms—about 13 thousand million Rs.—is of a capitalist nature (which does not mean that the farming methods are echnically advanced). This figure represents about one quarter of India's agricultural income. It is evident that capitalist holdings are not characteristic of agriculture in the period after Independence. (7) The important thing is that not only a capitalist, but also a pre-capitalist structure can be seen to exist. Most of the *Maliks*, using almost all of their income for consumption, play the rôle of parasites. This is an important aspect of the economic consequences resulting from India's agricultural structure in the years after Independence.

3. THE AGRARIAN STRUCTURE: A HINDRANCE TO AGRICULTURAL DEVELOPMENT

The agrarian structure affects agricultural production in three ways.

1. *Low Productivity of Labour*

The food consumption of most agricultural workers is at a minimum

owing to the way they are exploited, with the result that many of the suffer from various illnesses related to malnutrition. This affects th capacity to work, and lowers the output of all the poorest peasants. large section of the working force available for agricultural work weakened by malnutrition and ill-health.

2. *Weak Productive Accumulation*

Agricultural production is also affected by defective means of produ tion: soil-exhaustion through lack of fertilization, weakened draugh cattle which can only do light work, inefficient or badly used agricultur machinery, etc.

The material results of the agricultural structure set up under th colonial régime are here apparent. The great majority of small farmer have incomes too small to live on and are hardly in a position to bette their conditions of production. In many cases they cannot surviv without some other source of income and are often reduced to borrow ing, becoming more and more heavily indebted to money-lender merchants, or rich peasants.

The small size of many holdings is the cause of this: about half o them cannot produce enough to make their work economically justifi able.[1] The land available is too unevenly distributed; added to this, th underdevelopment of industry keeps 80 per cent of India's population i the villages.

The lack of income with which to improve the material conditions o production results from the fact that a large percentage of tenant-farmers and cropsharers have to pay high rents. Social conditions therefor prevent the true producer from earning a satisfactory income. The situ- ation of the 'cropsharers' is even worse, for they are not usually given the same land every year and thus have little interest in its upkeep and development.

In addition to this, about one third of the farmers—in some regions as much as 90 per cent—are heavily in debt. Productive investment is evidently at a minimum. The productivity of most farms is bound to remain low.

The adverse effect of merchant and lending capital on production should not be overlooked. Few peasants can increase their production

[1] About 52 per cent of the smallest occupy only 6 per cent of the land under cultivation, whereas 10 per cent of the biggest occupy more than 40 per cent of the land under cultivation (calculated from the *N.S.S.–10*, p. 34).

without borrowing the money they need for selected seeds, fertilizers, irrigation machinery, etc., but high interest rates reduce any profit from increased production to a minimum (that is, when they do not com- pletely eliminate the possibility of a profit). This is not all. The money- lender, who is often the local merchant, is not likely to agree to loans which might lower sale prices by increasing the harvest. The higher the prices, the greater a merchant's profit. Even where there is no lending involved, the grain merchants often exert pressure on the peasants whose produce they buy to limit their output. It is difficult for the peasants to escape this pressure.

The village market is seldom a free market. The peasant is entirely dependent on the local merchant, who buys a pre-determined quantity in order to make the highest possible profit. A Calcutta correspondent of the *Economic Weekly* has stated that the Bengal market is controlled by the *mahajan* (local rice merchant or money-lender) who is himself subservient to the big grain merchants and factory owners. Food pro- duction is deliberately limited to give the intermediary the highest possible margin of profit—which means preventing any surplus of grain production.

If part of the land available were grouped into large holdings, this would certainly allow the richest proprietors to use the surplus profits for increasing productivity. Some farmers were doing so at the time of Independence, but the practice was by no means widespread.

The use of fairly large profits mainly for consumption was, however, widely practised. Moreover, savings out of income were mainly used to buy land (which was usually then let to tenant-farmers or cropsharers) and to serve as commercial or lending capital.

(a) In the years following Independence, and even today, commercial and lending capital formation was the main form of rural accumulation, whereas agricultural capital formation was rare.

We know little about productive accumulation in the past. The few inquiries carried out shortly before Independence or shortly afterwards show there was very little.

According to the *N.S.S.*, the total value of all implements (including carts and wagons) was something like 69 Rs. per holding. The total sum of capital engaged in agriculture and stock-breeding (excluding planta- tions) was estimated to be 26·5 thousand million Rs. in 1949–50, (8) i.e. about 25 thousand million Rs. excluding capital for State irrigation works. This is equivalent to about 90 Rs. per acre, cattle representing

74 Rs. and agricultural implements less than 10 Rs. The figures inclu loss of value through wear.

Because there was little accumulation in the past, the means which t peasants use to do their work are very restricted and usually inefficien A large number of holdings do not even have primitive ploughs (not speak of a steel-bladed plough) and only about half of them own harrow There is an even greater lack of irrigation machinery.

(b) The productive agricultural accumulation (9) totals about 1 thousand million Rs. a year in gross investments, 1·25 thousand millio Rs. in net investments, and about 2·8 per cent of the net income fro agriculture. (10) The low rate of capital formation is significant. I explains why there is almost no rise in agricultural production, and show to what extent the agrarian structure hampers development of produc tive forces in agriculture. (11) The resistance is so great that there is falling-off of investment out of capital inherited by owners of small and medium-sized farms. Each year, the latter are forced to sell a part o their lands to the big landowners, liquidate a part of their other posses sions, and go deeper and deeper into debt. (12)

3. *Unemployment and Underemployment*

India's lack of agricultural development is the more tragic as she ha immense reserves of unemployed or underemployed labour which, i the social structure were different, would be an enormous advantage They could be systematically employed in land improvement, irriga tion, draining, reforestation, and to combat soil-erosion, and thus increase productive forces to a great extent. The example China has given in the last few years shows how quickly the unemployed labour potential can accelerate agricultural production.

It is a recognized fact that there is underemployment in rural India Male agricultural workers can find only an average of 190 days' work a year and the women 120 a year. (13)

Much the same is true of farmers. An enquiry made in West Bengal showed that the farmers of that region did productive work for only four months of the year (on the basis of an 8-hour working day)—and that not even for agricultural work alone. (14) The situation is much the same throughout India, except where irrigation development allows for two or three crops a year.

The considerable wastage of working potential continues despite the very low productivity of labour due to primitive implements and bad

production conditions, and despite the loss of working time caused by these faults. (The time wasted, officially termed working time, could be saved if the social structure were different.)

A particularly striking example of time wasted through bad production conditions can be seen where farm land is divided up into small strips. On the farms of West Bengal (according to the above-mentioned report) each peasant has to work, on an average, eight separate pieces of land, each about one-third of an acre in size. Almost 70 per cent of the strips are no bigger than a third of an acre.

The cutting-up of land causes great wastage of human and animal effort, and also means that the land marking boundaries is left untouched.

Despite the waste of animal force which is included in 'working time', the animals are occupied for only a small amount of the time. Nevertheless, holdings in West Bengal of less than 3·75 acres—nearly three-quarters of the total number, in fact—have too few oxen to be sure of producing a regular crop without an excessive time-loss. Most of the animals belong to the bigger holdings.

These brief particulars show that the agricultural weaknesses can be traced to a defective social and economic structure. The social and economic structure of the non-rural, non-agricultural population is also affected by agricultural defects. And the rural caste-system is reinforced.

4. THE RURAL POPULATION NOT ENGAGED IN AGRICULTURE

After Independence, about 20 per cent of the rural population earned the main part of their income from non-agricultural activities, mostly in artisanal work, domestic service, transport and trade. The situation is much the same today.

From the 1951 Census, provided that certain points are reconsidered, we can estimate that the non-agricultural rural working force (15) consisted of nearly 21 million persons in 1952–3. This force was distributed as follows. The figures are in millions. (16)

1. Small enterprises	6·6
2. Domestic services, personal and health services	3·2
3. Railways and communications	0·5
4. Other trades and transports	4·3
5. Professions	1·7
6. Administration	2·3
7. Mines and Processing Industries	2·3

Activities under the headings numbered 1, 2 and to a certain extent and 5 can be called traditional, while the others have developed fro urban and organized industries.

The traditional activities correspond to the old trades and crafts whic made the village a more or less self-contained economic unit. Village li was one of the chief characteristics of ancient India and still, to a gre extent, of India before colonization. It depended on close co-operatio between industry and agriculture. The products or services of the villag craftsman were destined for the village cultivators, who provided for th craftsman's needs. This division of labour was not based on an exchang of merchandise. Only when production outstripped the needs of th village, or when debts had to be paid to those in power, was there an exchange.

The main traditional craftsmen were the blacksmith and the carpente who produced and repaired agricultural implements, the potter makin pottery, bricks and tiles, the weaver, the barber, the washerman, and (i some cases) the gold- and silversmith. The village also supported Brahmin astrologer, an accountant, a water-controller, a field-guard etc.

The old professional structure was based on a caste system whic became more and more rigid. The British occupation slowly changed th professional system, ruining the overtaxed peasants, developing exchang and monetary economy, reducing millions of craftsmen to povert through competition from modern industrial goods.

However, some of these professions still exist in the villages and follo the traditional methods, but often in a degenerate form since the crafts men work both for the farming families and at the same time for th market. The relationship between craftsman and cultivator, and the ex tent to which the craftsman deals in money, vary considerably accordin to region and to profession. It is therefore impossible to give an overal picture. Throughout the country one can see all the stages betwee production for the needs of a small community and open-market pro duction. Outside the towns, most of the craftsmen use their own mean of production, using traditional techniques. Only exceptionally does non agricultural rural production come from enterprises of a capitalist typ employing hired labour.

In the village, capitalist enterprises are not normally productio enterprises but commercial firms trading mainly in cereals and cotto and lending both in kind and in money.

Since the non-agricultural rural population varies considerably in its omposition, it is useful to give an example.

The following comments are taken from L. Dumont's description of sub-caste of Southern India.

Washermen, barbers, and carters owed certain services for which they ould demand payment, usually in kind. But the potters worked for eighbouring markets where the village women went to buy goods. The nly goods they provided according to the traditional agreements were hat was required for the illuminations during the Kartikkai festival.

The normal payment for work was a certain amount of grain distri buted after the harvesting, 4 marakkals[1] going to the carter, 3 to the lacksmith (who lived in another district), 5 to the washerman, and 3 to he barber. 'The barber and the washerman also received a handful of ood prepared for each house both morning and evening. A woman or a hild goes around the houses to collect this food.' (18) (There are extra istributions of food at festivals or at family ceremonies.)

Our example shows how little money is used in the rural economy (19) nd how much remains of the old non-commercial relationship etween village industry and agriculture. (17)

on-agricultural Income in Rural Districts

Statistics concerning income from the non-agricultural work of ifferent social and professional groups in rural districts should be reated with care. We shall nevertheless quote some figures to give a ough idea of the quantities involved.

According to estimates for 1952–3 (20), the Net Annual Income per orking person in rural districts was 355 Rs. for domestic workers, 65 Rs. for those engaged for personal or health services (mainly barbers, ashermen, etc.), and 435 Rs. for administrative employees. These hree classes therefore had a lower average income than that of the griculture working force since the average net income *per capita* of he latter was 445 Rs.

The following groups had a higher average income than that of the gricultural working force: workers in small enterprises (880 Rs. per orker), in the professions (915 Rs.), in trade and transports other than ailways (1,395 Rs.). (21)

These figures are only rough estimates of limited significance.

[1] The marakkal = 73·4 ounces (cf. H. D. Malaviya, *Land Reforms*, *op. cit.*, p. 192), or about 2 kg.

Persons of very different social situations are often included in the sam group. This applies in particular to the 'Small Enterprises', where o finds craftsmen working in the traditional manner and those working f the open market together with owners of small businesses and even the employees. No figures are available for particular social groups, althoug these would have been more instructive. Nor are there any statistic covering the income of rural moneylenders. As we shall see, the latte are economically powerful in the villages as are the *Maliks* and th landed proprietors.

Two other points arise:

1. It is certain that the low standard of living among those who liv from agricultural work, and who make up the largest part of the rura population, depresses the average income of all the other categories o rural workers.

2. The small real income of most village craftsmen is also a result o their inefficient techniques. Yet their small income prevents them fro improving their primitive methods of production. Most of them can onl afford primitive, hand-made tools.

In fact, India's rural districts are not nearly as well developed (eithe economically or socially) as the towns. This is not unusual in the worl today, but it is particularly striking in India. As in most colonial or semi colonial countries, her cities have developed in step with the world mar ket and the countryside has been left behind. The lack of progress i rural India has materially hindered any change in the caste system.

5. THE CASTE SYSTEM IN RURAL LIFE

The caste system was legally abolished under the Indian Union's Con stitution, but it has not disappeared. In the eyes of the law, two person belonging to different castes may marry; such marriages occur, but the are rare. Nor does the law recognize untouchability. In theory, i punishes any who openly discriminate against 'untouchables'.

Our remarks on this subject apply not only to the years immedi ately following Independence, but are valid for the present day as well There will be no need to return to this question in Part Two of our study The caste system is of much less importance in the cities; what little w have to say about castes in urban life can be found in the Annex to Chapter V.

We do not intend to describe the caste system in great detail or to

discuss its origins and its sociological aspects. These questions are highly controversial and little explored; they are best left to specialists. We shall merely give a brief view of the system and its effect upon the economic, social, and political life of modern India.

The Main Characteristics of the Caste System

C. Bouglé defines the caste system by means of 'these three points: hereditary specialization, hierarchical organization, mutual repulsion'.[1]

L. Dumont defines it from a formal point of view as a system of '*polarité hiérarchique*', adding that India has 'instituted inequality'.[2]

There still exist a large number of castes among which there is no intermarriage and which have an hereditary specialization. More than two thousand groups have been counted, but the figure is deceptive because many of the castes are divided into endogamous sub-castes.

It is difficult to say how many members any one caste contains or where they are concentrated. According to Irawati Karve, who defines a caste as an endogamous group, most Indian castes number less than 200,000. There are however larger groups; for example, the *Marathas* of Maharashtra who number about five million, drawn from various tribal elements.[3]

Our notion of 'caste' is that which corresponds to the Sanskrit term '*Jati*' ('he who is born'), a concept used by most French sociologists after the traditional Indian custom.

Two different endogamous castes can do the same work and even use the same name, provided they live in different regions. If they live in the same region, their caste-names will be slightly different. Thus I. Karve notes that in the districts of Khandesh, in the north of Maharashtra, there are two different castes of *Khumbars* (potters). One is called *Thor Chake* ('with a big wheel') and the other *Lahan Chake* ('with a small wheel') according to the traditional size of the potter's wheel they use. In the whole of Maharashtra, there are about ten castes of *Khumbars*, each with its own culture and traditions. I. Karve goes as far as to say that these castes are often different ethnic communities with different blood-groups and different bodily proportions.

The castes of any region form a hierarchy in that each is understood to be 'higher' than some and 'lower' than others. The existence of the

[1] C. Bouglé, *Essais sur le régime des castes*, p. 32.
[2] L. Dumont, *A Contribution to Indian Sociology*, p. 18.
[3] Irawati Karve, 'What is Caste?' in *E.W.*, January 1958, pp. 133–4.

hierarchy is proved by the fact that lower castes will accept food fro members of a higher caste but not *vice versa*.[1] At Sharmipet, all t castes except the *Panch Brahma* group accept food from the Brahmin All the castes, with the exception of the Brahmins, accept food from t *Komtis*, but the latter only from the Brahmins. Members of castes whi are more or less on the same standing usually accept food from o another and may eat together (which never happens with members two castes of different levels); but, according to the rules of the cas system, there can be no intermarriage. In the villages these rules a strictly observed.

Each caste has its religion, ritual, rules for marriage, rules about foo and taboos. The Brahmin castes are vegetarian, except when they a *Shivayits*, although some of them eat fish (those from Bengal in pa ticular).

Each caste has a *panchayat* (council) which makes sure that the cas rules are respected. The members of the *panchayat* are chosen by trad tional methods, hereditary right being one of the important factors.[3]

The caste *panchayat* has no legal means of enforcing its decisions, b the weight of public opinion—in the villages at least—is enough t prevent any disobedience. However, if a person goes to live in a town h usually escapes the influence of his original *panchayat*.

According to traditional and religious teaching, the castes are of fo categories or 'colours' (*Varnas*).

Most texts place the Brahmins[4] highest in the order, being the pries hood caste. Then come the *Kshatriyas* (the warrior castes, theore cally, from whom the kings were chosen): the *Vaishyas* (merchants and finally the *Sudras* (servant castes). The members of the first tw *Varnas* are considered to have been 'born twice'. This means that the male members undergo initiation ceremonies and are thus spiritual reborn. They then have the right to wear the 'sacred cord'. (22)

Except for the Brahmins, the castes do not always conform to th

[1] The difficulty being, as we have remarked above, how to classify the cast exactly. They may change place over a period of time. L. Dumont rightly spea of 'a real but variable hierarchy of castes'. (*Une Sous-caste de l'Inde de Sud*, p. 16

[2] *An Indian Village*, p. 37. S. C. Dube later notes that the lowest type *Madiga* refuses food from all except *Madigas*: there are then two exclusi groups, one at the top, the other at the bottom, of the scale.

[3] See Chapter IX for more details about the organization of the *panchayats*

[4] There are many castes of Brahmins. I. Karve puts the number at more tha 200. ('What is Caste?', *E.W.*, 1958, p. 125.) Each is endogamous, each has its ow ceremonial (*ibid.* pp. 127–31).

theoretical scheme. L. Dumont shows that the *Kallars*, who are usually classed among the *Kshatriyas*, can also be counted among the *Sudras*. Some farmers who should belong to the *Vaishyas* are classed among the *Kshatriyas*. (23) In fact, the theoretical classification is not as important as the hierarchy which is accepted in each region.

There are some castes which are not included in the four *Varnas*, and have been called 'outcastes'. They have their own hierarchy, and their members live outside the centre of the village. This is the group called the 'Untouchables'. In point of fact, the theoretical distinction between the *Sudras* and the 'Untouchables'[1] does not always seem to be applied.

Castes and Occupations

If we are to see how much effect the caste system has on social and eco- nomic affairs, we must first find out whether belonging to a certain caste determines a person's occupation. In theory, the system does not lay down what work a person shall do, but reserves access to certain occupations.

The point which must be understood is that the close relationship between a person's caste and his occupation is due to the absence or underdevelopment of monetary economy. There must always have been some changes of occupation, but as long as the traditional system of demand and counter-demand exists it will be very difficult for anyone to change his type of work. The community expects contributions of a particular sort from him, and only if he respects the traditions will he be paid in return what is traditionally his reward.

Things change completely where monetary economy is developed. Nothing forbids members of a caste from doing work different from the traditional activity of their caste, except a few specific religious interdictions which are extremely limited in scope.

Irawati Karve remarks on this point:[2]

'When opportunities for some work other than hereditary occupa- tion arise and are more paying, full advantage is taken of them by all

[1] S. C. Dube writes that the traditional system of the *Varnas* divides Hindu society into five groups, the fifth being the 'Untouchables' (*Indian Village*, p. 35). But traditional texts only mention four (cf. Bouglé, *Essais sur le régime des castes*, p. 29). Some authors consider the fifth group to be a subdivision of the fourth *Varna* (cf. I. Karve, 'What is Caste?', *E.W.*, 1958, pp. 881, 882).

[2] I. Karve, 'What is Caste?', *E.W.*, 1958, p. 407. The same author observes that whenever a *panchayat* has pronounced a sentence of exclusion from any caste, to her knowledge 'none has been pronounced for change of occupation'. (*Ibid.* p. 407.)

castes. . . . In the district of Salem in Madras State, weaving is
occupation in which almost every caste except Brahmins are engag
The author has seen whole villages made up of the castes of *Che*
Reddy and *Vellala* engaged in weaving, and it is difficult to s
whether the hereditary occupation or this new one is the prima
occupation today. Besides these, weaving is also done in this area
castes who are hereditary weaver castes. The change in occupati
has not affected the endogamous character of the castes.'

Examples of Brahmins filling very different posts (moneylende merchants, soldiers, civil servants, landlords, etc.) are quite comm and have been so since the eighteenth century. A. H. Hocart gives ma illustrations of this point, and remarks that 'Manu authorises the ca of priests to live by agriculture and manual labour'.[1]

The link between these changes and the growing penetration money into the village economy is well stated by S. C. Dube in h observations on the village he studied':

'. . . in the last few decades the occupational character of caste h undergone some modifications. In place of their traditional occup tions, people have started accepting other vocations. The traditio system of caste interdependence under which artisan and occup tional castes attach themselves to the families of agriculturists is st there. But the attached labourers of untouchable castes are showi signs of discontent, and figures for the last ten years show twenty-o migrations of *Madiga* families to the city. Barbers, washermen a carpenters also openly express preference for a basis of cash payme as that enables them to negotiate and bargain and puts an end to t uncertainty and occasional high-handedness of the employer und the old system. The traditional arrangements involving the barter occupational services between artisan castes are now also giving pla to a basis of cash payment.' (24)

It should be noted that the transition from the system of an exchan of goods and service to one of monetary exchange not only gives membe of a caste freedom from traditional requirements, but also permits change in techniques because it becomes possible to buy new produ tion tools. Thus, in Sharmipet, the barbers, carpenters, blacksmiths a metalworkers use machine-turned instruments.

[1] A. M. Hocart, *The Castes*, pp. 2–4.

The Economic Consequences of the Caste System

Can we conclude from the above observations that the caste system is simply a private matter, a sort of grandiose masonic system, and that it has no real effect on the social, political and economic development of the country?

The answer must be no. First, there can be no doubt that even if general economic conditions are favourable, the caste system strictly limits social and professional mobility. This is essential for effective economic development in that it allows working capacity to be used to the maximum. It is the village which suffers most,[1] for it is not easy to break the traditional bonds uniting agriculturist families to families of craftsmen, nor to dispel the idea that someone who follows the traditional calling of his caste is acting in a more 'suitable' way than someone who takes up a different occupation.

S. C. Dube mentions the fact that if a farmer is not satisfied with the work of the craftsmen who is traditionally attached to his family, it is not easy to approach another:

'His difficulty will not be in dismissing him, but in finding a substitute. Each of these castes has its own inter-village council. Occupational castes have a developed trade unionism, and their code of professional ethics and etiquette too is very rigid. The dismissed person will be protected by this professional etiquette. No one else would be willing to act as a substitute, for fear of being penalised by the caste *panchayat*. It may even be difficult for a number of families to join together and import a family belonging to that occupational caste from a different village. First, under these conditions of tension, an outside family would not come for fear of social pressure and ultimate ostracism for such an action. And if they do come, the caste fellows already in the village will make things very difficult, even unbearable, for them.'[2]

It is not this aspect of the caste system which has the worst effect on economic and social progress because with the growth of the towns and of a monetary economy, the above-mentioned difficulties solve themselves. If there were not so much underemployment and unemployment, the members of the different castes would have less reason for holding on to

[1] As we shall see later, the caste system is much weaker in the towns and there is not the same difficulty in changing occupations. But its economic—and above all its social and political—consequences are just as great.

[2] S. C. Dube quotes three cases of tension between the employer and an employee, and their solutions (*op. cit.* pp. 61 *seq.*).

their occupational 'privileges' (and for acting as did the guilds France under the *ancien régime*). Social and professional mobil would be greater. But, in fact, the main obstacles in the path of econo development are to be found elsewhere.

One of the most important points is that the social status of a individual is essentially hereditary. He cannot change it by his o effort or ability, because his social position is pre-determined by t caste to which he belongs. What personal respect he can earn will won by accepting the rules of his caste and the condition to which was destined at birth. (25)

He who attempts to better his social position must face the hostility public opinion and even violent reactions from members of 'highe castes than his own.

A. C. Mayer writes in *Land and Society in Malabar*:

> 'Though theoretically anybody with wealth enough can purcha land, the buyer's previous social status makes it hard, even dangerou for him to press his legal equality too far if he belongs to one of t lower castes.' (*op. cit.* p. 133.)

The author then quotes the case of a *Pulaya* who, after acquiring so land, died in 'highly suspicious circumstances'.

One of the negative consequences of the system derives from the fa that the most highly-placed castes are by tradition inactive and do physical work. The prestige of these classes is great, and therefore t other classes tend to look upon work in general, and physical work particular, as a lower form of activity.

It must be understood that the Brahmins are not necessarily the dom nant caste. In local hierarchy, those who have a fairly high rank a the biggest economic resources are the most powerful. (26) But ev where the Brahmins are not the dominant caste, they may have t greatest prestige. In any case, the scale of values inherent in the cas system is completely opposed to the values of an industrial civilizatio

Another important aspect of the caste system is the traditional sol darity among members of one caste. This strengthens the hold of t more powerful castes on the weaker ones, and may prevent them fro making any attempt at independent economic progress.

Srinivas, in his study of the *Coorgs*, shows that the dominant castes the region (the *Okkaligas*) can impose their will on villages when the is a dispute. This is true even when Brahmins are involved.

The power which caste solidarity gives to a dominant caste can also be measured in economic and political affairs. The manager of an organization will collaborate more readily with the members of his own caste than with others of the region who may be more capable. The *R.C.S.* notes that in the case of co-operative societies: 'If a *Reddi* is president of a society, all its employees are *Reddis*. If a Brahmin is president, all the employees are Brahmins.'

Political and Social Consequences

Here again, the caste system has many evil effects. A system of 'legalized inequality', to repeat L. Dumont's expression, is obviously the opposite of a democracy giving equal rights to all men.

It is amazing that in the villages every caste upholds these inequalities. All but the very lowest castes find some way of proving their superiority to the other groups. This ideology goes beyond the Hindu population. The Christians of Southern India who come from the superior Hindu castes will not sit next to members of their religion coming from 'lower castes'. Some churches have had to be specially constructed so that the different classes can be separated.

There is also a hierarchy among the different tribal groups. The *Raj Gonds* from the region of Hyderabad consider themselves superior to another tribal group, the *Kolans*, who in turn consider themselves superior to the *Pardhans*. (27)

Religious communities (Sikhs, Muslims, Jains, Parsees) and geographical groups (Marwaris, Gujarats) are often treated by members of the various castes as if they also had a particular position in the caste system.

The ideology behind the caste system not only breeds inequality; it also teaches the 'higher' castes to despise members of the 'lower' castes and sometimes to prevent them from using political power when a 'lower' group wins it by force of numbers.

Cases of this sort have arisen through local elections. Members of 'higher' castes have been known to withdraw from an election, leaving the power to the 'lower' classes; they have then shown that the power gained was a mockery. The 'higher' classes (being those who own the land and the money) can often count on the support of administrative authorities representing the central power, notably the police. Hence their derision of elected office.

Another major point is that caste solidarity is often more important at

elections than political views. Political parties sometimes use t fact by presenting a candidate from the largest caste in the area. T elector, on the other hand, expects those elected to surround themsel with members of their own caste. M. N. Srinivas has remarked (28) t the caste system is so closely involved in India's social and politi affairs that everyone, including the leading politicians, tacitly accep the need for a minister to represent each main caste in the Provinc Cabinets. Srinivas also pointed out that in the first government Mysore State not only were the ministers chosen on a caste basis, b each had a secretary representing the minister's sub-caste; and that, the time of writing (1955), caste still determined political nominatio and even influenced the allotment of places in schools.

This state of affairs is particularly acute in Southern India. It on increases the sense of caste solidarity and aggravates the tension betwe castes. Institutions cannot function correctly. Instead of ideologic differences within a bourgeois democracy, there is a system of cas oppositions; this hinders the formation of political class forces becau the main social classes are themselves divided among a large number castes. Many events in the social and political history of India can traced to the influence of castes or of religions.

Criticism of the system and propaganda against it are powerless change something so solidly rooted in Indian life. Only economic deve opment, the penetration of monetary economy into the villages, and change in the agrarian structure, would alter the traditional identificati between 'dominant castes' and 'lower castes'. And only then wou education be extended to all, industrialization succeed, and the cas system slowly dissolve.

We can see from the workings of the caste system in urban life that t growth of the towns and of industrialization weakens the system. B before going into this matter any further, we must recall the state industry and the urban structure in the period immediately followi Independence.

NOTES TO CHAPTER 2

(1) H. D. Malaviya, *Land Reforms*, pp. 163–4.
(2) Daniel Thorner, *The Agrarian Prospect*.
(3) See the works by Daniel Thorner quoted in the Bibliography.
(4) D. Thorner, *Land and Labour in India*, p. 143.

(5) *v. A.L.E.-I.S.*, table VII, p. 7 of Appendix VII.

(6) The main sources of the statistics used for these estimates are: *.E.F.M.W.B.*, *A.L.E.R.M.P.*, *F.R.N.Y.*, *R.C.S.*, *8th Round N.S.S.*, *V.S.S.-10*.

(7) Despite the reserves that can be made about the *R.C.S.* (see D. Thorner's remarks in the *E.W.* July 1960: 'The All-India Credit Survey viewed as a scientific enquiry', pp. 949 *seq.*), the Survey makes n interesting point: the sum of current investments in other than land nd stock was quite high among the most important cultivators in West Uttar Pradesh, in Deccan, and in some regions of Bombay and Madras *v. R.C.S.*, vol. I, pp. 628 *seq.*). But in most regions, there was no indication that investment in tools and equipment was proportionate to the ize of the holdings, which means that production conditions were much he same for all sizes of holdings.

An enquiry made in West Bengal seven years after Independence, ublished under the title of *Studies in the Economics of Farm Management*, also shows that there is no visible change in production conditions nd equipment for holdings of differing surface areas (*v.* in particular he tables on p. 44 and on the following pages).

(8) *v.* 'Estimate of the Reproductible Tangible Wealth in India, 1949–50', by Uma Datta and Vinod Prakash, published in *P.N.I.*, pp. 247–58, and in particular pp. 247–9.

(9) *v. India* 1957, New Delhi, 1957, p. 192–3 and 'Estimates of Domestic Fixed Capital Formation in India: 1948–9 to 1954–5' by Baldev Kumar (in *P.N.I.*, pp. 122–3.).

(10) The above figures are not directly comparable with those for he funds already immobilized in agriculture, for the latter include the alue of the herd, here excluded. However, land improvement works are ncluded in the current capital accumulation, whereas the value of land s not counted in past accumulation.

(11) It would be interesting to estimate what influence the size of a holding has on the total of its current investments. This would give us an idea of how the agrarian structure, investments, technical improvements, and the development of production are related to one another. It would also show how rural capitalism is developing. Unfortunately, the statistics available are not reliable enough. With every reserve, here are a few of them. According to the table II–37 of the *R.C.S.* (vol. I, part I, *op. cit.* p. 629), gross current investment per unit of surface area varies in *inverse proportion* to the size of the holding. The

investment in dead and live cattle and in land improvements comes 15·9 Rs. per acre for the 'big cultivators' (first three tenths), 16·4 per acre for the 'medium cultivators' (next four tenths), and 19·3 per acre for the 'small cultivators' (last three tenths). Even the 'v big cultivators' (first tenth) make a gross investment per acre lo than that of the 'medium cultivators', although it is higher than average of the 'big cultivators', being 16·2 Rs. per acre.

The fact that small and medium cultivators make a higher gr investment per acre than the big cultivators does not mean that they free from financial worries (land rent and repayment of interest); means either that they are more willing than the big cultivators to ma sacrifices to improve their land, or else that they are forced to make higher investment per acre than the big cultivators to get the sa amount of produce.

Under-consumption, debt, and increasing poverty are the results the investments which the smaller cultivators have to make, and whi even so, are not enough to ensure the progress of Indian agricultu Their personal consumption needs once satisfied, the surplus is n enough to meet the investment expenses which they are called make.

(12) This conclusion is reached by using the *R.C.S.* data (*v. o cit.* pp. 763–817).

(13) *A.L.E.-I.S.* (p. x).

(14) *S.E.F.M.W.B.*, p. 36.

(15) The rural population is defined as those living in agglomer tions of less than 5,000 inhabitants.

(16) *v.* the *P.N.I.*, p. 157; the figures are taken from the artic by S. K. Chakravarti, Uma Datta, and V. Srinivas: 'The Share Urban and Rural Sectors in the Domestic Product in India in 1952–

(17) This method is described in W. H. Weiser's book, *The Hind Jajmani System.*

(18) L. Dumont, *Une Sous-caste de l'Inde de Sud*, Paris—La Hay 1957. In this study L. Dumont describes an agglomeration calle Tengalapatti, situated in the south of the State of Madras (the Madu region).

(19) On the basis of the *N.S.S.* data, it is estimated that for th whole of the Indian economy (including the urban sector) self-con sumption of food and non-food products made in the home accounts fo about 40 per cent of total consumption (*v.* P. C. Mahalanobis, *Dra*

ecommendations for the Formulation of the Second Five Year Plan, elhi, 1955). The effect of payment and counter-payment in kind is that part of the produce which is not consumed by the producers themselves not exchanged for money either.

(20) *op. cit.* pp. 423 and 424.

(21) *P.N.I.*, p. 157.

(22) A. M. Hocart, *Castes*, p. 36, and S. C. Dube, *An Indian Village*, 225.

(23) A. M. Hocart, *Castes*, p. 66.

(24) S. C. Dube, *An Indian Village*, p. 225.

(25) Quoted from the *R.C.S.* vol. II, p. 55.

(26) On the notion of 'dominant castes', see L. Dumont, *Contribution o Indian Sociology*, pp. 27–37.

(27) S. C. Dube, 'A Deccan Village', *E.W.*, May 8 1954, p. 528.

(28) M. N. Srinivas, 'Castes. Can they exist in the India of Tomor- ow?', *E.W.* Dec. 15 1955, p. 1230.

III

THE DEVELOPMENT OF INDIA'S INDUSTRIAL PRODUCTION AND ITS STRUCTURE

THE FIGURES quoted in Chapter I show that there is very li industrialization in India. Only 2 per cent of the total working forc employed in the organized processing industries: just after Indep dence they produced a little more than 6 per cent of the National I come, or the equivalent of about $3.00 per inhabitant.

These figures should not induce us to underestimate India's industr resources. Nor should they obscure the fact that many fairly power industries do exist. In several towns, the decisive sector of the popu tion is the classes representing modern industry. This we shall see in t next two chapters. We shall try to give an overall picture of the importa social and economic problems facing India after Independence in th parts of society directly or indirectly affected by industrial and urb development.

India's Industrial Resources

India's industrial resources are exploited to an even smaller exte than are her agricultural resources. Her industrial resources make h one of the richest countries in the world.

India's iron ore deposits are estimated at 21 thousand million to which is a quarter of the total world deposits. About 6·8 thousa million tons of ore have been located. Considerable deposits of hemati exist in Bihar, Orissa, Madhya Pradesh, Mysore, and the Bomb region. Magnetite has been found near Madras and in Bihar, Oriss Mysore and Himachal Pradesh. Large deposits of limonite exist in We Bengal.

India's deposits of manganese are the third largest in the world, bei estimated at 112 million tons, 100 million tons of which have been pr cisely located in Madhya Pradesh and the Bombay region. India al possesses deposits of chromium, gold, bauxite, ilmenite, and vario non-ferrous metals, notably beryl and monazite, which are importa

raw materials for atomic industries. Finally, gypsum also exists, as does mica, the latter deposit being one of the largest in the world.

India is equally rich in her energy potential. It is estimated that 60 thousand million tons of economically workable coal lie beneath her surface. Lignite exists mainly in the Madras region, Rajasthan, Saurashtra, Kashmir, and Kutch. Petroleum reserves are little explored. About 400,000 sq. miles of terrain is thought to be capable of giving petroleum. Hydro-electric power reserves are immense: they are estimated at some 41 million kw. (1)

India's resources as a whole would give her a leading position in world industry, in particular the steel and engineering industries and the chemical industries based on coal.

Given this potential, let us now examine the state of India's industrial development immediately after Independence.

The Decline of Traditional Industry and the Development of Modern Industry

India's industrial situation in 1948 was the result of a long period of change in which modern industry replaced the traditional crafts.

We shall not go into the numerous discussions on the subject of India's 'deindustrialization'. It is, in fact, extremely difficult to follow the exact course of 'deindustrialization' during the nineteenth century. So far, the data available have been insufficient. The proportion of the working population employed in industry and handicrafts is generally thought to have been 25 per cent at the beginning of the nineteenth century, but this figure is only hypothetical. We know, however, that in 1881 the proportion was between 16 and 18 per cent. (2)

Foreign trade statistics best show the effects of 'deindustrialization'. India, still an exporter of manufactured products at the end of the eighteenth century, becomes an importer. From 1815 to 1832 India's cotton exports dropped by 92 per cent. In 1850, India was buying one quarter of Britain's cotton exports. All industrial products shared this fate.

The ruin of the traditional trades and crafts was the result of British commercial policy. Restrictions were imposed upon Indians exporting to the West, while favours were granted to British exporters, who flooded the Indian markets.

After the 1850's, a new trend is established: that of a certain amount of modern industrial development. The building of a railway system is, chronologically, one of the first and most important factors which

influenced development. Marx saw this as early as 1853, writing in t *New-York Daily Tribune* on Lord Dalhousie's proposition to bu railways in India:[1]

> 'But when you have once introduced machinery into locomotion a country, which possesses iron and coal, you are unable to withho it from its fabrication. You cannot maintain a net of railways ov immense country without introducing all those industrial process necessary to meet the immediate and current wants of railway loc motion and out of which there must grow the application of machine to those branches of industry not immediately connected with rai ways. The railway system will therefore become, in India, truly th forerunner of modern industry.'

Sure enough, the main railway centres rapidly became the hubs o industrial development.

A second factor also encouraged this development: the decline o British industrial supremacy after 1860, challenged in the world mark by German, American, and Japanese competition. British capitalis reacted by building a certain number of modern industrial establish ments in India. Using cheap labour, they managed to defeat foreig competition while bringing in high profits.

The years 1853–5 saw the beginning of British capital investment i India. In the preceding period a part of India's National Income wa going in the direction of the United Kingdom. After 1853 the flow o capital was reversed, although the inflow of British capital was far fro balancing Great Britain's total 'deductions' from Indian capital. (3) Bu the new capital nevertheless contributed to the founding of some indus tries.

Finally, there are the economic and social factors which played a decisive rôle in India's industrial development.

Throughout the nineteenth century a mercantile, moneylendin bourgeoisie was taking shape in Indian society, its roots already forme in numerous existing trade centres of varying prosperity. The growth of this class increased under British rule through the development of th means of communication, the ruin of handicrafts, and the taxatio imposed on the peasant class, which caused a commercialization of good portion of the agricultural output. The misery of the peasant clas also favoured the expansion of moneylending.

[1] Karl Marx, *Articles on India*, Bombay, 1951, p. 70.

For several reasons which we shall not analyse here, Indian commercial and moneylending capital was very quickly concentrated and soon became powerful, which helped its partial transformation into industrial capital. This phenomenon gave birth to the cotton industry in particular, which entered into increasingly keen competition with the British cotton industry. (4)

The Rise of Indian Industry since the Beginning of the Twentieth Century.

India's industrial development since the beginning of the century can be judged from the following figures. No information will be given about the working force, as the existing statistics are difficult to interpret and seem to indicate that the numbers concerned have changed very little. However, there has undoubtedly been some movement from traditional to modern industries. The productivity of labour in the modern industries is considerably higher than in the crafts, which is the main cause of the rise in industrial production since the beginning of the twentieth century.

According to calculations made before the war by the economic research service of the S.D.N., if one takes 100 as the basic index of manufacturing production in 1913, the index was 240 in 1938. This means that industrial output had increased four times since 1900. (5) The average annual rise in industrial production was 3·75 per cent for the years between 1913 and 1938. This high rate is appreciably better than the rise in world production during the period (2·4 per cent).

During the second world war, India's industrial output shows another rise, which (according to estimates) was between 10 and 15 per cent between the years 1938–9 and 1948–9.

Between the beginning of the century and Independence, industrial output rose to 4·5 or 5 times that of 1900. (6)

The progress of India's modern industrial production has been favourable. This is confirmed by the rise in the number of industrial workers from less than a million at the turn of the century to about three million just after Independence. But the rise in employment in this sector corresponds to a fall in employment in the traditional crafts. Nevertheless, the output of both handicraft and organized industries has shown an appreciable increase since the beginning of the twentieth century.

The Structure of Indian Industry

Until 1914, India's modern industrial sector consisted mainly of th cotton and jute industries, the latter being almost exclusively Britis There was little change during the first world war and until the 19 depression. There was a slight increase in the development of ne industries during the second world war.

The textile industries, together with the tea and sugar-cane industries were still at the top of industrial production after Independence. The came the metallurgical and engineering industries. The table belo gives some idea of the relative importance of the main branches o Indian industry according to the value of their output.

NET VALUE OF OUTPUT IN THE VARIOUS INDUSTRIES (IN MILLION RS.) FOR THE YEAR 1949[1]

Cotton	1,365
Tea	578
Jute	352
Sugar-cane	307
Engineering and electrical industries	272
Metallurgical industries	287
Chemical industries	119
Vegetable oils	68
Tobacco	102
Rubber and rubber products	85
Printing and publishing	151
Cement	55
Aluminium, copper, and bronze	60
Motor-cars and other means of modern transport	104
Paper and cardboard	55
Others	1,026
Total	4,986

We reach a net value of output of 5·5 thousand million Rs. by addin to the above total the sum of industrial products not included in the tabl in particular that of electricity, which totalled 165 million Rs. includin the cost of transmission.

Among the extractive industries (total value roughly 600 million Rs.

[1] See *F.R.N.I.C.*, p. 66.

coal-mining leads with a total estimated value of 477 million Rs. in 1949.

The above figures testify to the basic weakness of Indian industry, especially in the metallurgical and engineering industries. The result of this situation—and we shall take up the point again—is that any large industrial development in the India of 1948–9 required imported machinery since the national industry could not supply what was necessary. As we shall see, one of the main objectives of the Second and Third Five-Year Plans on the industrial side has been to try and remedy the unsatisfactory structure of industry.

To sum up, the low total value of production in Indian industry does not mean that there was no attempt at development in the years before Independence. Some industries (cotton, jute and tea in particular) were potentially quite powerful in 1948–50, and their output reached a high percentage of total world production in these respective industries. The metallurgical and engineering industries were by no means non-existent, but their output was not nearly sufficient for the needs of industrial expansion in a highly populated and potentially rich country.

India's unsatisfactory industrial development obviously affects the size of the typical social groups in the urban sector of modern India.

NOTES TO CHAPTER 3

(1) See *India* 1959, pp. 13 and 14. See also J. C. Brown and K. Dey, *India's Mineral Wealth*, 3rd edition, London 1955; Council of Scientific and Industrial Research, *The Wealth of India: A Dictionary of Indian Raw Materials and Industrial Products*, 4 volumes, New Delhi, C.S.I.R., 1948–57; K. C. Ghosh, *The Economic Resources of India and Pakistan*, Calcutta 1956; M. S. Krishnan, *The Geology of India and Burma*, 3rd edition, Madras 1956; O. H. K. Spate, *India and Pakistan*, 2nd edition, London 1957; D. N. Wadia, *The Geology of India*, 3rd edition, London 1953.

(2) On the working force and its structure in 1881 and at present, see various works by D. Thorner, particularly 'De-Industrialization in India 1881–1931' (a paper read before the Congress of Economic history held in Stockholm in 1960), and the works of Daniel and Alice Thorner, *Comparability of Census Economic Data 1881–1951*.

(3) In fact it is easy to show that during the whole period of British rule, more capital was exported from India to the United

Kingdom (or 'recalled', as is usually said) than was imported in India from the United Kingdom.

Only between 1853 and 1866 does there seem to have been a net con tribution of British capital to Indian capital formation. This was main due to the construction of railways and to investment in jute, tea an coffee plantations. During this period India's balance of trade was un favourable, which was unusual for British India.

After 1866, India exported more than she imported, which is the sig of net 'deductions'. But the sum of British investments in India con tinued to increase, without net additions. Considerable sums we deducted from the Indian National Income by the British in the form interest, dividends, and capital recalled. Admittedly, more profits fro foreign capital were ploughed back than were recalled.

Although this subject has often been studied, we have little preci information about foreign investments and the corresponding foreig debt for the period before Independence.

According to the estimates of Dukh Haran Nath Gurtoo, India foreign debt stood at 4·7 thousand million Rs. in 1920 and reached maximum of 9·2 thousand million Rs. in 1933. Of this sum, 5·1 thousan million Rs. corresponded to the debt of various public authorities.

India's foreign debt decreased after 1933, and was no more than 5 thousand million Rs. in 1948 (according to the same estimates). Th decrease was solely due to the fact that the public authorities repai their part of the debt fairly quickly. However, private investments we much larger in 1948 than in 1933, totalling about 5 thousand million Rs although many British enterprises had been sold to Indians as well as large amount of stocks and shares.

On India's balance of payments, see Y. S. Pandit, *India's Balance of Indebtedness 1898–1912*, London, 1937, and D. H. N. Gurtoo, *India Balance of Payments 1920–60*, New Delhi 1961; also D. Thorner, *In vestment in Empire*.

(4) India's modern industrial development was at first violent opposed by the British, and particularly by the Manchester Chamber o Commerce. In 1869, the Manchester Chamber managed to get th customs duty on cotton imports abolished. In 1882, almost all the impo duties on cotton were abolished. They were restored in 1894 fo budgetary reasons, but the English industrialists were able to get 3·5 per cent tax imposed on Indian cotton goods, which was exact equivalent to the customs duty on foreign goods. This tax was n

abolished until 1925, after the Indian textile workers had come out on strike. It is obvious that the British industrialists did not want to encourage Indian industrial development.

(5) *v. Industrialization and Foreign Trade*, League of Nations, 1945, pp. 134–5.

(6) According to the estimates of Dr K. Mukerjee of the Ghokale Institute of Economics and Politics in Poona, the index for industrial production (on a basis of 100 in 1935–6) rose from 25 in 1900–1 to 172 in 1952–3, while the index for mining production (on the same basis) rose from 28 to 193. (*v. E.W.* September 17 1960, p. 1399.)

IV

THE BOURGEOISIE AND CAPITAL

DESPITE the weakness of Indian industry, one of its principal chara teristics is the relative strength and concentration of its capitalist secto The situation of the bourgeoisie and of capital in economic and soci affairs must therefore be closely examined before passing on to oth considerations.[1]

It we admit that the non-agricultural bourgeoisie consists of tho whose taxable income exceeds 10,000 Rs., about 0·5 per cent of India population comes under this category. (1) It is more difficult to decid how many of the bourgeoisie earn income from agriculture (either a landlords or as capitalist farmers). Treasury figures are complete lacking on this subject, which makes it hazardous to give even an approx mation.

Let us suppose that farms of more than 75 acres provide enough in come for those who receive it to be considered as members of the bour geoisie. (In this case, the less important *Maliks* can be seen as part o the small rural bourgeoisie.) We find that about 600,000 families, o three to four millions of those living from agriculture, can be include in the agricultural bourgeoisie. This is about 1 per cent of the populatio Adding the 0·5 per cent from the towns, the Indian bourgeoisie as whole totals at the most 1·5 per cent of the population. (2)

The bourgeoisie as we have defined it is therefore very small, but it economic and political influence is considerable because its income i very high. It holds the key positions in society, its wealth is concen trated, and it is in close contact with both national politics and th administration, as well as with foreign capital.

[1] Few of the changes in this field since 1947 have altered the situation, and w shall include some comments on recent years in this section. There is not enoug difference between today and 1947 to make it worthwhile returning to the subje in the second part of our study.

1. THE SHARE OF THE NATIONAL INCOME EARNED BY THE BOURGEOISIE AND BY CAPITAL

Treasury statistics (taking into account the probable number of fraudulent declarations) show that the income of the non-agricultural bourgeoisie in 1953–4 was about 8·7 thousand million Rs. in all (3), which was about 16·5 per cent of the year's National Income from other than agricultural sources. The economic power of this group is obviously out of proportion to its size.

The total income given above is only a fraction of capitalist income in the non-agricultural sector, which is also shared among foreign capitalists, the small bourgeoisie, and other elements of the middle classes. In addition to this, a part of the income from capital is not distributed in the form of individual income, but held back by enterprises. We must therefore attempt to estimate the total income of capital. It would seem to be at least 15 thousand million Rs. for the year 1953–4 (using the source quoted above), or 28 per cent of the non-agricultural National Income.

These would seem very high figures for what we have seen to be a weak modern industrial sector. In fact, a great deal of capitalist income comes from non-industrial sources. This is true of interest on lending capital and, in particular, of profits made from the resale of agricultural produce. Such kinds of capitalist income are derived from exploitation of the non-capitalist sector by merchant and lending capital: and this is made possible on the scale to be seen in India by the weakness and poverty of the pre-capitalist sector, its bad production conditions, its low technical level.

According to the estimates of N. Kaldor, non-agricultural income showed the following distribution:

NON-AGRICULTURAL CAPITALIST INCOME (EXCLUDING SALARIES) AND ITS SOURCES

	(in per cent of aggregate income)
Mining and modern industry	37·5
Small enterprises	13·8
Railways, transport and communications	4·7
Banks and insurance companies	1·8
Trade	26·4
Housing rent	15·8

The table shows that mining and modern industry come relatively low on the scale, trade and housing rent relatively high. Income from 'banks' is certainly underestimated, since interest on loans is not included.

The fact that the capitalist sector receives a large part of the National Income means that its productive powers are highly developed. It also means that it has a very strong position in the non-capitalist sector, which it has gained by using pre-capitalist methods. In other words, the capitalist *system of production* in India is not so highly developed as the *real income* in the capitalist sector would suggest.

Another characteristic of Indian capitalism is the concentration of income within a small receiving group. Of those subject to income tax on declared earnings of over 10,000 Rs., only 3·8 per cent had a capitalist income of over 70,000 Rs. Yet this 3·8 per cent earned 28 per cent of the total income declared by persons with a taxable income of more than 10,000 Rs. (4)

The concentration of high incomes within a small, well-organized group gives its members considerable power. Their incomes may be even higher than the taxable figure, for sums reinvested in the enterprises which they own do not count as taxable personal income. The group increases its power by its hold on centralized industry and on a part of the banking system.

The Indian bourgeoisie's power is limited by the fact that a comparatively large part of big industry's and the banks' modern means of production are owned by foreign capital, mainly British.

One cannot really understand the working of the capitalist sector without taking into account its two opposing forces, even if they are often at truce: on the one hand, foreign capital; on the other, domestic capital controlled by the Indian bourgeoisie and, in particular, by the big bourgeoisie. It is these two forces which we must now analyse.

2. FOREIGN CAPITAL INVESTED IN INDIA

Foreign capital's influence in the Indian economy is much greater than investment figures indicate. To see why this should be, we shall have to examine the way in which it exercises its control over all spheres of the economy.

In June 1948, India's total foreign debt was about five thousand million Rs., 3,261 million Rs. of this being the sum of the private debt. Of these 3,261 million Rs., foreign investments in the true sense of the

word totalled 2,876 million Rs., the balance being made up of short-term bank or commercial liabilities.

It is essential to understand that by no means all foreign investments are placed at India's disposal in the form of foreign currency or resources.[1] The major share of these investments corresponds to profit on previous capital investment which has been ploughed back.[2] The original investments were much smaller than the total amount of money recalled by Britain from the Indian economy. Seen from this point of view, the situation boils down to the fact that domestic capital accumulation has been decreased rather than increased by the foreign powers.[3]

The situation did not change in the years before Independence.[4] To see this, we have only to compare the balance of payments and the movement of foreign investments.

At the end of 1953, a year during which the economic policy of the First Five-Year Plan had not yet shown any effect, foreign investments showed the following patterns. (see table on page 58). (5)

We use the word 'investments' in the restricted sense of the word used by statisticians and which is explained in the notes to the above table. It can be seen that the capital directly controlled by foreign investors (8,410·7 million Rs.) is nearly double the amount of actual foreign investments (4,410·0 million Rs.). (13)

The observations made in the notes to the above table being taken into account, the assets actually controlled by foreign capital are certainly much larger. They probably total about 10 to 12 thousand million Rs. for the year 1953.

Before attempting to analyse the extent of foreign capital's indirect influence, we should decide how important these 10 to 12 thousand million Rs. of foreign interests are in the balance of the Indian economy.

It is obvious that 10 thousand million Rs. is only a fraction of India's

[1] We shall return to the question of how the public foreign debt has developed in Part Two.

[2] Sir Arthur Salter shows in a study of how British investments abroad increased between 1880 and 1913 that the increase is entirely due to ploughing back of a part of the profits from previous investments abroad. The self-increase of British investments began a little before 1870.

[3] See Chapter III, note 3, pp. 51–2.

[4] Paul A. Baran has shown in a brilliant study how the debts of almost all under-developed countries have increased (without anything more than a small initial investment of foreign capital) by the building-up of those profits left in the country. The rest of the profits are recalled abroad as income for the capitalists of industrial countries or as new investments in the home countries. (Cf. Paul A. Baran, *The Political Economy of Growth*, pp. 178–9.)

total reproductible capital: probably less than 1 per cent. (14) However, the major part of her capital is invested in agriculture and housing, giving little direct contribution to market production. Another part of the wealth which is invested in market production corresponds to the means of production of small producers who just manage to keep in business: this part of the national wealth has almost no effect on the formation of surplus investment capital.

FOREIGN INVESTMENTS AND THEIR SPHERE OF INFLUENCE

	Value of foreign investments (in million Rs.)	Capital directly controlled by foreign investors and functioning in India (in million Rs.)
Shares in portfolios (6)	700·4	700·4
Branches of foreign firms and companies (7)	2,261·9	3,085·2
Branches of foreign banks (8)	119·0	2,008·2
Branches of foreign insurance companies (9)	60·8	479·7
Branches of foreign companies (10)	974·8	1,127·9
Companies of which more than 40 per cent of the shares are held abroad (11)	167·9	267·1
Companies under foreign management (12)	125·2	742·2
Total	4,410·0	8,410·7

Foreign capital is, on the contrary, mainly used for producing large investment surpluses. It must therefore be judged in comparison with the total investment of similar domestic capital, that is to say capital invested in big industry, mining, plantations, banking, and big business. We find that 10 to 12 million Rs. is about half of the capital invested in the foregoing industries. (15) These are the major branches of the Indian economy in the sense that most of the capital formation condenses in

them.[1] *Foreign capital can therefore be said to share the control of the Indian economy with domestic capital on what is very nearly a fifty-fifty basis.*

A quantitive estimate of foreign capital's influence demands qualification. Other important factors come into play; action by the State, for example, which can aid or reduce foreign influence; relations between domestic and foreign capital; or again, the ratio of foreign capital to local capital within any particular industry. These are the factors which must be examined if we are to determine foreign capital's indirect influence on the Indian economy.

Foreign Capital's Indirect Control of the Indian Economy

During the colonial period, the action of the State was normally favourable to British capital (16) and, because of this, the latter's indirect control of the country's economy was much greater than its numerical value in the main branches of industry. Since Independence, State action has been favourable to domestic capital, although not to a very great extent. The powerful position of foreign capital in the country, its relationship with domestic capital, and the weak rate of national accumulation making foreign participation desirable, are the reasons why State action was forced to respect foreign influence.

As conditions have changed little in recent years, the table on page 60 showing the extent of foreign capital's indirect control remains on the whole true of the present situation. The changes that have taken place—notably in the electrical industries, petroleum and coal—will be examined below.

The table on page 60 gives some idea of foreign capital's influence through industrial management. Its influence is particularly strong in the *principal foreign-currency earning industries* (tea, jute and cotton) and in those which are *the main sources of modern power* in India (petroleum, coal, electricity).

However, these quotas do not fully represent the influence of foreign capital, for some enterprises which are in fact under foreign control do not figure in the list: enterprises which are maintained by both foreign and Indian capital, for example, where there is a majority of Indian capital dependent (through agreements) on foreign capital. This type of enterprise has multiplied since 1945. Another example is that of enterprises controlled by foreign capital but with Indians

[1] The surplus 'condenses' in these branches of activity in that a part of their profits comes from exploitation of minor branches of activity: agriculture, for example, is subsidiary in this way to trade.

in the majority on the boards of directors, although some of them may be merely the mouthpiece of foreign interests.

DEGREE OF CONTROL BY FOREIGN CAPITAL (17)

	Per cent of control by foreign capital (in 1951)
1. *Industries in which more than 50 per cent of capital is under foreign control*	
Petroleum	97
Rubber factories	93
Light railways	90
Matches	90
Jute	89
Tea	86
Coal	62
Other mines	73
Plantations and distribution of rubber	54
2. *Industries in which less than 50 per cent and more than 25 per cent of capital is under foreign control*	
Banks and financial institutions	46
Electrical industries	43
Engineering industries	33
Coffee plantations	37
Food industry	32
Paper and cardboard	28
3. *Industries in which less than 25 per cent of capital is under foreign control*	
Sugar	24
Cotton	21
Cement	5

Foreign capital also has a strong influence on financial, banking, and commercial operations, and exerts its influence through managing agencies.

In 1947, the action of Indian Banks in vital economic operations was still small, and it did not increase to any great extent in the years immediately following Independence. In 1952, the Indian join-stock banks, with reserves of more than 500,000 Rs. as well as deposits, furnished only about 55 per cent of loans and advances (including discounts) against 24 per cent by the exchange banks and 21 per cent by the Imperial Bank.

Indian exchange banks took part in only 18 per cent of sterling exchange transactions and in 28 per cent of dollar transactions, against 82 per cent and 72 per cent respectively in the case of the foreign exchange banks.

In practice, then, the foreign exchange banks control about four-fifths of India's foreign trade. The Indian economy loses large sums in commissions, brokerage, insurance costs, etc.; and these losses are extremely detrimental as they mean currency losses. Indian capitalists also complain of discrimination practised by the exchange banks who favour foreign rather than Indian commercial enterprises. Indian commercial enterprises do not seem to carry more than 20 per cent of the export trade. It also appears that the foreign exchange banks require their clients to insure merchandise with insurance companies of their own countries.

The foreign banks' influence is increased by the fact that industrial capital is nearly always in the power of the banks and has to obtain credit on a large scale.

Thus, in 1949, bank loans to the cotton and jute industries totalled as much as 60 per cent of the paid-up capital of those companies receiving loans.

Since Independence, Indian banking capital has been gaining ground on foreign banking capital. This results from the increase of deposits, and legislative measures excluding foreign capital from some important positions. We shall examine these changes below.

Lending and commercial capital is known to exercise a decisive influence on the agricultural situation. But what is generally overlooked is the fact that foreign capital also has some control over agricultural activities, and in particular over agricultural market produce. The local buyer of agricultural produce, the *mahajan*, depends on a wholesale agent and consequently on a commercial firm or an export firm (often foreign-owned). It is these firms which grant loans to the agent and through him to the *mahajan*. They impose the price they are willing to pay. Since foreign capital is at the top of the pyramid (which may consist of many more intermediaries than in our example) it is foreign capital which dictates the conditions governing the returns from a part of the Indian peasantry's harvest.[1]

[1] This mechanism was described in 1929 before a Commission of Enquiry. There is every reason to believe that the situation is still the same. (See the results of the *R.C.S.*, and *The Bihar and Orissa Provincial Banking Committee*, 1929–30, vol. I, p. 60 and vol. II, pp. 165–6.)

It is evident that foreign capital's influence on the Indian economy is exercised in many different ways: both by direct control in certain sectors of the economy and, related to this, by indirect influence on other sectors. In Part Two, we shall see that on the whole foreign capital had lost little ground during recent years, although the sort of control it exercises and its means of doing so have certainly changed, sometimes considerably. The various difficulties which retard industrialization and which are caused by the presence of foreign capital and its actions have not been satisfactorily overcome.

An all-Indian government (with fairly effective means of financial control), determined to accelerate economic development, has given new opportunities to the Indian bourgeoisie and to the big bourgeoisie in particular. We shall now analyse the position of Indian big capital in India's capitalist sector.

3. THE ORIGINS AND RISE OF INDIAN BIG CAPITAL

It is impossible to understand the present position of Indian big capital without taking a brief glance at its origins and the conditions in which it has developed. Past and present are too closely related for us to examine one without the other.

Indian capital quickly reached a high degree of concentration, because only those who possessed large financial resources at the start could exist when faced with competition from foreign capital and with the feudal or semi-feudal social and economic structure of rural India. Feudal relations reduced internal market expansion of industrial products to a minimum, the market being in any case supplied by imports from Britain.

This explains why there was little expansion of industrial capital formation, and why there was immense expansion of lending and commercial capital. The latter type of capital flows back into industry only when the leading capitalists are strong enough to gain monopolies, and thus make high industrial profits as quickly as in the traditional fields of investment.

Very often the richest elements of the bourgeoisie, who tend to invest more and more in industry, continue their previous investment activities either personally or by means of intermediaries. This is how those who represent lending and commercial capital become representatives of industrial capital, and the process can be seen in the case of the Tata, Birla, Jain and other industrial groups.

Industrial capital developed late in India, at a time when world capitalism was already at the monopolistic stage. There was naturally a tendency for Indian industrial capital to take monopolistic forms. The managing agencies which British big capital used to exploit colonial India were also used by Indian big capital as a method of combating foreign capital. The caste or community of capitalists moving towards industrial activities (18) used either this institution or the internal credit system. They could hardly avoid doing so, since for a long time an isolated Indian enterprise could not get banking support because the big banks were controlled by foreign capital, which wanted to discourage Indian capital formation, or by Indian big capital, which did not treat possible competitors kindly.

Joint-stock companies were soon used to gather sufficient capital for the creation of big industrial enterprises powerful enough to compete with foreign firms. But until the first world war, and even for some time after, the shares were held by small groups. The merchants who provided raw materials for the new industries or those who sold the products were often asked to collaborate. Later, some of the shares were sold on the Stock Exchange (control of the enterprises being kept by means of the managing agency) and the founder's profits obtained were reinvested in the building-up of new enterprises.

This explains why members of a small number of castes or communities hold the important positions in the Indian industrial sector.

The traditional character of the Indian handicraft classes (whose members all belong to 'servant' castes) may also have hindered autonomous industrial capital formation in small industry. Apart from this, small enterprises found great difficulty in obtaining loans from a banking system dominated by commercial or foreign capital. But the importance of these two factors must not be overestimated. Experience has shown that in an expanding economy, even in India, there is always an expansion of the autonomous industrial sector. Once again the fault lies with India's stationary economy which, together with the conditions described above, allows financial capital to dominate industrial capital. Naturally enough, once this state of affairs has developed, financial capital will be unwilling to relax its hold on the economy.

4. THE POSITIONS OCCUPIED BY INDIAN BIG CAPITAL

The strong position of capital in Indian industries can be seen from statistics relative to the concentration of employment, capital, and industrial production in large enterprises.

In 1947, 90·7 per cent of workers in the textile industry (i.e. 908,000 out of a little more than a million) were working in 325 factories (about one third of all textile factories) each employing at least 1,000 workers. In the engineering industries, 49 per cent of the workers (more than 160,000) were employed in 58 factories of the above-mentioned size, which was 3·4 per cent of the total number. In the mining industries, 62 per cent of the workers were employed in 8 factories (2·8 per cent of all mining establishments. According to the 1947 industrial census, 7 per cent of the factories (those employing more than 1,000 workers) grouped more than 67 per cent of the workers. Only factories employing at least 20 workers were included in the census, which makes the above figures even more remarkable.

From the point of view of productive capital, it is interesting to note that of the factories which returned questionnaires, those with a capital of more than 5 million Rs. represented only 4·1 per cent of all factories concerned (i.e. 206 out of 4,880) but produced 43·4 per cent of the total output.

A. Roy, from whose book we have taken these figures, observes that industrial concentration in India reaches a much higher degree than in industrially developed countries.

Indian capital is mainly invested in big industry working for the domestic market, whereas foreign capital prefers big industry producing for the export trade or for allied activities. Indian capital has succeeded in penetrating to some extent into the export trade, especially where cotton goods are concerned.

It follows that industry controlled by foreign capital is situated mainly in the ports and along railway lines leading towards the coast. At first, there was a similar concentration of industry controlled by Indian capital. Bombay, for example, contained mainly the latter type of industry; Calcutta, the former. A few industrial centres have appeared, which, controlled by Indian capital and sometimes by one big enterprise, are not really geared to external market production.

Foreign capital has only a minor share in enterprises of Department I of the economy (those making means of production) and therefore leaves Indian industry dependent on imported machinery and equipment. The domestic industry is not capable of supplying all new machinery and equipment needed, nor of increasing output in this field by its own means. Also, the amount of Indian big capital invested in this type of industry is totally insufficient.

This industrial concentration is the material basis of an even greater economic and financial concentration, monopolistic in character. The latter should be analysed firstly by branch of industry and secondly by financial and industrial group. The two types of analysis do not have the same scope, because one financial group usually controls more than one type of industry and conversely, many financial groups often have a share in the control of one particular industry.

Economic and Financial Concentration in Some Branches of Industry

In the metallurgical industry, four big firms were the major producers in 1949, but the industry as a whole was dominated by the Tata group represented by the Tata Iron and Steel Co. (T.I.S.C.O.). This company's output was at the time 76·9 per cent of total production capacity (estimated at 1·6 million tons), against 16·2 per cent for the Steel Corporation of Bengal and 1·6 per cent and 1·5 per cent respectively for the Mysore Iron and Steel Works and the Ishapore Ordnance Factory. The rest of the output was distributed among a fairly large number of small enterprises.

The T.I.S.C.O. is related to other companies of the Tata group, in particular to the Tata Locomotives and Engineering Co. (T.E.L.C.O., see below), the Indian Tube Co., the Tinplate Co., etc. All the capital of the coal-mining company West Bokaro Ltd. belongs to T.I.S.C.O.

Despite the concentration of the metallurgical industry, its total output is extremely small for a country as large as India; less than 10 lbs. per inhabitant. At the same period, the United States was using more than 100 times as much, Great Britain more than 50 times as much. Nor must it be forgotten that India has large resources; the cost price of steel produced in India is considerably lower than that of imported steel. Indian capitalism's difficulty in producing even this amount of steel is characteristic of the effects of imperialism on colonial industrialization. The 'Iron Belt' with its rich deposits was discovered towards 1870 by the great Indian geologist P. N. Bose, working for the Indian Geological Service. Its possibilities were examined over 50 years ago in a report by the American steel specialist G. P. Perrin, which he made for the Tata

group: but only after Bose, who had been forbidden by the British to reveal his discovery, had retired from the I.G.S. and had thus been able to inform Tata. Even so, many decades passed before enough capital could be gathered to finance the first modern steelworks in India.

In the electrical industries, installed productive capacity in 1950–1 was 2·3 million kw. Three-quarters of this lay in the private sector.

The private sector is highly concentrated: five companies provide more than 75 per cent of the current and of the five, two dominate the group. One (the Calcutta Electrical Supply Co.) is controlled by British capital, and the other belongs to the Tata group.

The two industrial centres Bombay and Calcutta are entirely dependent upon the above two companies. Once again, the power of the two companies rests on a small section of the community: in 1950, consumption of electricity per inhabitant was 1·3 kwh., 170 times less than in the U.S.A., 85 times less than in the U.K.

In the cement industry, there is an even greater concentration than in the electrical industries. One group, the Associated Cement Co. Ltd. (A.C.C.), an amalgamation of four companies, produced about 64 per cent of the total output which, in 1952, was 3,200,000 tons. About ten factories in various parts of the country belong to the company.

The second great producer, much less important than the first, is the Dalmia group, producing about 14 per cent of the total output.

The most important processing industry in terms of value of production is the cotton industry. It is slightly less heavily concentrated than the preceding industries. In 1946, 24 companies owned 24 per cent of the spindles and 21 per cent of the looms. The 24 companies controlled 65 factories (out of 421 in all) and were managed by 12 groups, the most important being four controlled by Tata and two by Birla. (19)

Apart from this, the managing agencies that controlled the different factories were interrelated (often by family ties), especially in the great textile centre of Ahmedabad. M. M. Mehta has shown that at the beginning of the second world war Ahmedabad contained 18 big industrial families who controlled 57 of its factories, which is to say 80 per cent. (20)

The monopolistic position of big industrialists in the cotton industry is reinforced by their hold on the Cotton Producers' Associations. The two main Associations are those of Bombay and Ahmedabad. Each Association groups almost all the factories in its region and is more of a cartel than an association. (21)

The cotton industry, unlike steel, electricity, or cement, is one of the largest in the world. In 1949–50, it produced 3·5 thousand million metres of cloth and about one thousand million pounds of cotton yarn. It comes third in world production figures after the American and the Soviet industries, and well ahead of the British. Output per inhabitant is none the less small, and monopolistic practices, favoured by the small domestic market and its slow rate of expansion, have been an important factor in the stationary level of production after the war. We shall see in Part Two that production rose after 1951–2.

Excess monopolistic profits were made possible by low cost prices and by the system of handicraft production whereby millions of weavers earn very little because of their low productivity.[1] The practice of setting a sale price which is considerably higher than the cost price is accepted because it allows the small enterprises and their workers to survive, but it also gives excess profits to the bigger enterprises. The latter's profits are at least five times as high as those of the small enterprises. (22)

Here, then, is a brief survey of economic and financial concentration in some branches of industry. The phenomenon is not limited to these branches, and may be even more striking in the little-developed branches where the total output is shared between three or four large producers.

It is hardly necessary to insist on the consequences of such concentration and of the accompanying monopolistic practices. They are well known: appearance of monopolistic profits, fall of net income in rival sectors and in agriculture, low buying price of raw materials when these themselves are not in monopoly (as in the case of agriculturists), a tendency to slow down development of the production system and even to use only part of the existing system in order to maintain high prices. These consequences are highly detrimental to a country as economically underdeveloped as India.

[1] According to the *F.R.N.I.C.* (p. 71), the net income per worker in the textile industry was one of the lowest for small industries: about 550 Rs. a year in 1950–1. This is a result of low physical productivity, competition from factories (the result of which is that most weavers can only work part time for lack of markets), and bad yarn supplies. (The textile factories tend to keep yarn for their own use.) Hand and spinning-wheel production continues. Gandhi favoured these activities but the cost price of the thread thus obtained—even if the producers live in the most frugal manner—and its bad quality led weavers to prefer factory-spun yarn. Steps have been taken to give weavers a set quota of factory yarn. Also, a new spinning-wheel has been devised (the *Ambar Charkha*) but it is not economical.

Indian Capital's Dispersal and the Formation of Financial Groups

Big capital often shows a tendency to disperse once financial capital has formed, but the process differs according to conditions in the country concerned.

In India, this tendency was accelerated by the colonial and then semi-colonial nature of the economy, by the strong feudal or semi-feudal relationships in the country, and by a basic structure in which productive forces were little developed. The domestic market's slow rate of expansion incited big capital to diversify its investments rather than develop some priority branches at high pressure, which would have led to their being developed much too quickly for its liking. A few examples will show how the tendency for big capital to disperse can be seen in action.

Let us take first the Tata group, which is *the largest of the Indian financial groups*. It manages the Central Bank of India and controls dozens of industrial and commercial companies.

We have seen that T.I.S.C.O. is part of the Tata group and that the latter controls other factories, railways, and power stations, from which Bombay and its region as well as many others draw their supplies.

The Tata group also controls big chemical factories (Tata Chemicals and Tata Oil Mills), cement factories, engineering works, food-producing firms, hotels, etc. Just after the second world war, it was estimated that the Tata group controlled a capital of 850 million Rs. in the industrial sector alone; this was only part of the group's capital, which has been growing in strength since that date.

One can gain some idea of the power of such a group by bearing in mind that the industrial town of Jamshedpore, created by Tata to serve T.I.S.C.O., has 250,000 inhabitants all relying directly or indirectly upon T.I.S.C.O.

At present, Jehangir R. D. Tata is the president of Tata Industries (the managing agency of the Tata group) and director of all the companies managed by Tata or in association with it.

The Tata group, unlike most other Indian financial groups, has on the whole quite a limited rôle in the commercial field. This is a principle which has been respected since the 1920s, when the group lost heavily in commercial affairs.

According to R. K. Hazri, the Tata group controls more than 100 companies. About 50 of them are managed by Tata alone, and their total assets reach 2·9 thousand million Rs. Assets of companies partly controlled by Tata total nearly one thousand million Rs.

The Birla group is also one of the most powerful in India. Its managing directors are the Birla brothers. At the end of the second world war, the Birla group managed 89 joint stock companies and one of the Indian big banks, the United Commerical Bank. By means of this bank the group exerts a controlling influence upon several dozen other companies and insurance companies. It controls a large number of textile factories (in Calcutta, Delhi, Gwalior, Bhavani, etc.) and jute factories, coal mines, sugar refineries, engineering factories, automobile and bicycle factories, chemical plants, electrical equipment factories, pottery and porcelain factories. It also manages some important commercial firms, particularly some engaged in foreign trade.

The textile companies appear to have the largest amount of paid-up capital (217 million Rs.). Then come the engineering industries (116 million Rs.), the investment companies (64 million Rs.), the paper and printing industries (59 million Rs.), banks and insurance companies (26 million Rs.), and commercial firms (22 million Rs.), etc.

It should be borne in mind that some of the above industries do not in fact produce and sell goods, but are merely financial or investment companies. This means that the Birla group is much more of a financial concern than would appear from the preceding analysis.

The Birla group also controls the following newspapers and journals: *The Hindustani Times* (Delhi); *Searchlight* (Patna); *The Eastern Economist* (a Delhi weekly); *The Leader* (Allahabad); *Ravastrani* (in Hindi).

A third group of considerable influence is the Singhania group, with interests mainly concentrated in the Jaggilal Kamlapat Managing Agency.

The Dalmia Jain group was another powerful consortium at the time of Independence. It controlled the Bharat Bank (the second largest in India), and had relations with other banks and powerful insurance companies (notably the Bharat Fire and General Insurance).

It also managed the second largest cement trust in the country, many coal mines (Bharat Collieries and others), six of the most important sugar refineries, two very large cotton factories and two wool factories, two big chemical factories and many others. It was at the head of particularly important press concerns: *The Times of India*, *The Illustrated Weekly of India*, *The Evening News of India*, etc. (24)

The Dalmia group, like the Tata, has created industrial towns entirely

dependent on its products and named after members of Seth Ramakrishna Dalmia's family: Dalmianagar (Bihar), Dalmiaputram (South India), Dalmiadadri (P.E.P.S.U.) and Shantinagar (now in Pakistan). It also has a remarkably wide geographical range.

Three other groups should be included in our survey: the Mafatlal, the Walchand, and the Mahindra; each has assets in the range of 150 to 200 million Rs.

These are the financial groups which have the greatest influence in the Indian capitalist sector. Other groups exist—Goenka, Gupta, Mody, Poddar, Jaipuria, etc.—but are less important.

There are many links among the different groups (particularly through employers' organizations and banks) so that the concentration of interests is even greater than the above details would suggest. (24)

Indian Capitalist Organizations

The opposition between Indian capital and foreign capital is clearly illustrated by the existence of separate organizations for each. This is not always the case; common organizations do exist, in particular industrial associations such as the Millowners' Association.

The Indian capitalist organizations are highly complex in structure, and we shall not go into too much detail in the following descriptions.

Professional organizations in the commercial field are the oldest existing type. The first modern professional organizations were founded by the British at the beginning of the nineteenth century. Only in the last quarter of the nineteenth century did the Indian capitalists begin to found their own organizations. With the development of Indian industry, commercial organizations began to take an interest in the industries related to their sphere of action.

After 1920, many Indian industrialists came into association. The Delhi Factory Owners' Association was founded in 1922, the Indian Mining Federation, the Indian Colliery Owners' Association and the Indian National Steamship Owners' Association in 1930, the Indian Sugar Mills' Association in 1933, the Indian Soap Makers' Association in 1934, and so on.

Representatives of big capital naturally took the lead within these associations. A representative of the Tata soap works, for example, was elected president of the newly-founded Soap Makers' Association, and this was the general pattern in all the main professional associations. Big capital thus acquired a far more extensive influence than before.

Most of the associations aim to develop and put into action common industrial and political policies; they are not limited to informing and representing their members. Their work covers questions of sale and cost price, price levelling, wage policies, mass buying of certain products, and even agreements on limiting production. In other words, these associations reinforce big capital's monopolistic practices and allow capitalists in the various industries to take common action against suppliers, clients, and employees.

As trade union movements among the workers gathered strength, industrialists were more inclined to form separate organizations which took care of trade union, social and wage questions, and which defended employers' interests when Parliament discussed social legislation. They are grouped into two federations: the Employers' Federation of India and the All-India Organization of Industrial Employers.

Parallel to the employers' associations are the closely related Chambers of Commerce. Since 1920, the Indian Chambers of Commerce have been grouped into one Federation of Indian Chambers of Commerce and Industry which today is the mouthpiece of Indian capitalism and of the big capitalists in particular.[1] The Birla brothers, Sir Padampat Singhania, K. P. Goenka and most of the biggest capitalists are on its Board of Directors.

The Federation is recognized as expressing the top industrial and commercial interests and is represented in this capacity on many official commissions: on the Planning Commission Advisory Board, the Export Advisory Council, the Import Advisory Council, the Central Advisory Council of Industries, etc. The Federation has the same standing as the All-India Organization of Industrial Employers, and the organizations work in close collaboration.

There also exists a powerful central organization of a purely industrial character, the All-India Manufacturers' Organization, which acts as a liaison between industrial capital and the Government. It seeks to promote unity of action among its members, influence public opinion by its publications, and uphold the interests of its members in the economic field. It also is represented on many official committees, and here again many of the most powerful of Indian industrialists have seats on the Board.

It is interesting to note that these organizations break the caste

[1] Together with this association is the Associated Chambers of Commerce of India, which represents the British capitalists in India.

barriers, at least on an economic front. Class solidarity replaces the former community solidarity.

These, then, are the organizations through which big capitalists in India exert social, economic, and political influence, and which reinforce the power they already possess through the industries which they control. Their influence is again strengthened by the fusion of commercial and industrial interests with interests in the banking world.

5. BANKS AND INSURANCE COMPANIES

It is hardly surprising that Indian big capital should be firmly entrenched in the banking world, considering that its origins lie in the lending and commercial spheres.

In 1949, there were 585 joint stock banks in India, with reserves of more than 461 million Rs. and deposits of 8,296 million Rs. These banks and the whole banking system are dominated by a group of seven banks holding 68 per cent of total deposits. It is a remarkable fact that in 1949, of the total deposits made with 11 of the biggest Indian banks and 15 of the foreign exchange banks, 78 per cent were held by the Indian banks.

The names which are quoted above are to be found at the head of these Indian banks. The Central Bank of India is mainly under the influence of the Tata group, but a representative of the Mody group and one of the A.C.C. are also represented on the board of directors. Tata and A.C.C. are also represented on the management of the Bank of India. The Dalmia-Jain group controls the Punjab National Bank, while the Birla group controls the United Commercial Bank and collaborates with Tata on the board of the Bank of Baroda. These five banks held deposits of nearly 3·3 thousand million Rs. in 1948–9.

Since then, these big banks have increased their power both by expanding their business and by absorbing small banks.

6. INCREASING FINANCIAL AND COMMERCIAL OVERGROWTH

The capital held by the most powerful groups is accumulated mostly in a form which ensures that it is tied up for only a relatively short time: this is the cause of increasing financial and commercial overgrowth. This also explains how capital accumulated by banks and insurance companies is related to enterprises in the production field: the relations are

in particular those of short-term loans rather than of long-term lending or financial participation.

This type of dependence is highly unfavourable to industrial development, as much because of the instability of the industries' financial resources as because of the expense incurred.

One consequence of these expenses is that the surplus created by the workers is to a large extent transferred outside the industry, with the result that internal accumulation in the industrial sector is slowed down considerably.

India's financial overgrowth is linked to the colonial (and later semi-colonial) nature of the economy and to the predominance of a semi-feudal system in the villages. Financial overgrowth due to such structures can be traced to a number of factors.

Those with the most direct influence are the limited size of the domestic market and the slow rate of its expansion, both of which are related to the poverty of the peasant masses and the tendency for their plight to grow worse. This creates unfavourable conditions for industrial development and capital formation. It also tends to send newly formed capital back into unproductive spheres. Such a movement is facilitated, and its specific forms determined, by the existence of monopolistic industrial groups of commercial or moneylending origin, which play a decisive rôle in industry, commerce, banking and insurance.

It is interesting to note that the factors giving commercial and financial activity an advantage over industrial activity and causing non-productive capital formation can be detected at all levels, even within the enterprises which are not directly controlled by financial capital.

The predominance of non-productive over productive capital formation is greater than statistics suggest.

Various secondary factors, partially related to India's economic and social structure, also tend to hasten overgrowth, and to magnify the structural faults mentioned above.

One of these secondary factors is the extreme instability of agricultural prices, which favours commercial speculation. This instability is obviously linked to the peasantry's low standard of living and to the irregular harvests, but it is accentuated by the lack of a political system of price stabilization which could be created by State intervention in the market for the main agricultural products.

To see that there are big fluctuations in agricultural prices, one has only to examine the movements in a year when the general price level

was relatively stable. (Otherwise the fluctuations would be partially hidden by a general price rise such as took place in India in 1948–9 when price control was lifted after the war, and in 1950 after the Korean war. Or again, they may be hidden by a general fall in prices such as that after the boom at the end of the Korean war.)

The year between October-November 1952 and October-November 1953 perfectly illustrates the fluctuations in Indian agricultural prices against a background of general price stability. During this year, the variations in the *average monthly price* of rice, raw cotton, raw jute and ground-nuts were so great that the difference between the minimum *average price* and the maximum *average price*, was, respectively, 12·3 per cent, 17·3 per cent, 20 per cent, and 51 per cent, and this mainly over a period of six months.[1] It is easy to understand that it would be much more tempting to invest one's capital in this field—which offers profits varying between 12 per cent and 50 per cent over a few months—than to invest productively.

Speculation on shares and on gold also offer much greater profits than do most productive investments.

Inevitably, there is a temptation to keep capital either in the form of easily disposable merchandise or in its most liquid form so that it may be instantly invested where the greatest profit seems likely. This causes a relative paralysis of commercial and financial capital and makes the odd structure of many company assets appear less surprising.

Most lending capital operations in rural India are also highly detrimental to productive capital accumulation. Their effect has generally been underestimated.

There is a tendency to think of urban capital and rural capital as two different provinces, separated by a sort of Chinese wall. The bad effect of rural lending operations on productive forces is explained first of all by the increase of poverty among the peasant masses due to high interest rates, and secondly by the resulting attraction of *rural* capital towards usury rather than production. This is a fair analysis but it is also incomplete; it omits the fact that rural money-lending operations also cause a drain on *urban* capital formation.

The loss to urban capital is really underestimated because it takes place in a series of intermediate stages, and this makes exact calculation difficult. But there are many indications that urban financial capital and

[1] In fact, the actual difference between maximum and minimum prices was often much larger than between the monthly averages.

rural moneylending capital are far less different than it would seem at first glance.

Agricultural loans by the commercial banks (whether controlled by monopoly capital or not) are certainly exceptional and relatively unimportant. These banks have little part in agricultural credit operations by reason of their structure, their geographical positions, the sort of operations which their resources permit (commercial rather than production investment) and the sort of security they demand. Moneylenders are the source of more than 85 per cent of loans to agriculturists: nearly 45 per cent of this comes from professional moneylenders (nearly always rural), 25 per cent from agriculturist lenders or other rural lenders, if we are to believe the R.C.S.'s report.

Investment in moneylending seems dominated by rural operators, leaving little room for urban capital. This is true of districts where there is little market production and little or no commercialization of produce. It is not true of the districts where credit facilities from the urban sector are available (at least indirectly) to the various rural moneylenders and particularly to those who are also merchants.

The latter can use funds provided by the urban sectors (and bank loans in particular) because they are in touch with the urban sector through their business dealings. Even if their trade is too small for them to obtain bank credit easily, their position and business relations with the biggest commercial firms or industrial enterprises (the latter, as we have noted, take great interest in financial affairs) allow them to obtain urban funds to finance their lending operations. In some districts where there is a good deal of commercial production, rural lending depends very heavily on urban funds. In the regions of Malabar, Quilon and Nizambad, the proportion of credit ultimately coming from urban sources is, respectively, 57 per cent, 29 per cent, and 22 per cent of the total debts. In many other districts, the proportion varied between 10 per cent and 20 per cent at the time of the R.C.S. enquiry.

Few of the professional moneylenders are restricted to usury alone. In fact, 38 per cent of professional rural moneylenders and 78 per cent of urban moneylenders are merchants, tradesmen, commission agents, etc., and therefore are able to call upon urban capital. The *R.C.S.* admits that:

> 'It is not ordinarily practicable for the indigenous banker to establish direct business relations with the ryot. He finances agriculture

through local *sahukars* or moneylenders. . . . In Bihar and Orissa, the indigenous banker lends to grain merchants and *goladars* and advances directly to zamindars and ryots who have an easy access to towns. In all provinces, he also indirectly finances agriculture by financing internal trade. . . .'[1]

The interrelation between monopoly or financial capital and lending capital has often been questioned on the ground that the interest rates on the two sorts of capital are very different. (25) The relationship is certainly complex and the methods of action differ in each case, but it should be evident that the different interest rates are the essential link between the two spheres and do not prove that they are distinct.

The complexity of their relationship stems from the fact that a professional village or small-town moneylender borrows from the organized banking sector only in exceptional conditions. He increases his capital mainly by profit from interest but sometimes by trading operations. Otherwise, the village moneylender may call on the local, indigenous, bankers, who, in turn, call upon urban capital. A report on banking problems states:

'. . . commercial banks . . . occupy a significant place in the financial superstructure that is available to the village moneylender, the urban moneylender, the indigenous banker and the trader in agricultural produce.'[2]

This analysis illustrates the ways in which a link can be established between urban lending capital and rural lending capital.

In such conditions, there may be one, two, or three intermediaries between the rural moneylender and the banking system. Bank loans can make this slow progress towards the rural sector only because at each step there is a high enough difference between the interest rate paid by the borrower and the rate which he in turn lends.

Highly unstable conditions and lack of research make it difficult to say exactly what the difference is between the successive rates of interest. It would seem that the difference is usually considerable. We know, for example, that bank loans and advances carry 3 to 4 per cent interest rates, whereas average commercial rates on bazaar bills lie between 9 per cent

[1] *R.C.S.*, vol. II, G.R., pp. 176–80.

[2] The Indian Central Banking Enquiry Committee, 1931, Majority report, p. 99.

and 14 per cent. A succession of lending operations can easily bridge the gap between the bank and the commercial rates. The only essential condition is that the inactive loans are made at a rate low enough to give a good margin of profit for each intermediate operation.

There are also particular conditions governing each of the intermediate operations, which make it difficult to break the circuit. The commercial banks have often tried to make direct contact with the agriculturists, but with little success.

It is not only the type of resources held by each category of operator which differs (that is to say, what percentage of liquid assets is held, how far each operator is self-sufficient, how quick the turnover is at each stage). It is also a question of what securities are demanded and accorded at each point of the circuit. It becomes almost impossible to break the circuit without completely changing its structure.

To give an extreme example, there is a fundamental difference between real securities (that is to say, capital in a fairly liquid form), which are the bases of bank credit, and the *personal* securities (often all that can be offered) which the moneylenders demand. The moneylender has no other security than his client's 'character and capacity to repay' (in the words of the *R.C.S.*). Because he has the means of exercising pressure on the borrower, the rural moneylender does not have to worry about what will be done with the loan, which may be used to finance *either production or consumption*. He may not even demand any tangible guarantee of repayment.

The R.C.S. report underlines the fact that rural moneylenders count on automatic compulsion to repay debts, but: 'If need be, of course, he is prepared to exert himself and set in motion the forces of compulsion. Those forces are social or economic or both. They are different for different debtors, but are in each case related to how the debtor is circumstanced in the village. The social compulsion is connected with considerations such as loss of "face" or local prestige, caste disapproval, possible pressure through the caste *panchayat*, and a variety of other social sanctions which, because they happen to be intangible, are not on that account any the less powerful. There are also a number of ways of economic compulsion. One form of pressure is that which the moneylender can himself exert by threatening to withhold future credit. Another is that which it may be possible to apply through some other creditor, especially the trader from whom the cultivator may have taken an advance. . . . Since moneylender, trader and landlord—not to mention

village headman and village accountant—are not without their code of mutual obligations in the village . . .,'[1] the recalcitrant debtor runs a serious risk. If, for example, he rents land, he may be threatened with eviction.

The farther one goes from the towns, the more 'personal' is the credit system and the more difficult it becomes for the banks to take any direct action in the field of credit. The internal development of rural India is having very little (if any) effect on the system by means of more produce grown for market consumption and bigger farms giving a basis in terms of land and capital on which to obtain credit.

These are the factors keeping the different forms of lending capital separate; they are at the same time the causes of their interdependence, resulting in the drain of urban capital towards the villages.

The exact amount of drainage cannot be given for lack of statistics, but it is certainly large. The difference between urban and rural interest rates causes a strong flow of urban capital towards the villages, and in years when the harvest is bad the current is quickened by the peasants' rapidly increasing debts. Unfortunately, rural productive accumulation is not in general increased by the new capital, which is mainly used for covering deficits and for consumption expenses. It merely increases the weight of debts.

One particularly important result of the connection between urban and rural lending capital is that urban capital tends to keep to a very liquid form and is unfavourable to productive accumulation, which depends on long-term tying up of capital.

From a political and social point of view, the connection creates a long chain of interests which unite big monopoly and financial capital with rural moneylending capital. Their solidarity is one of the reasons why the different measures designed to reduce the peasantry's dependence on moneylending capital have had little effect until very recently. The most moderate of such reforms—notably the extension of co-operative agricultural credit based on the credit of the State Bank of India—have met with little success.

In any case, it is certain that the complex relationship between big banking capital and rural merchant or moneylending capital is one of the reasons which explain the overgrowth in the financial and commercial sphere. It is certainly related to the other main causes, which are poverty among the peasantry and unstable agricultural prices. The

[1] *R.C.S.*, vol. II, G.R., pp. 176–80.

overgrowth favours unproductive capital formation, thus slowing down economic progress.

These phenomena are the cause of a constant drain on newly formed capital, taking a part of industrial capital into financial and commercial operations and even into the rural sector. In the villages, the capital is used mainly for non-productive purposes. Thus, from the point of view of the national economy, lending capital does not add to real capital formation but is a mere accumulation of debts—a transformation of capital into income.[1]

The movement of industrial capital towards non-industrial activities and from the more to the less developed regions (a movement which generally does not contribute to development) both result from the economic and social structure of the country. The causes are the monopolistic domination of industry and the weak domestic market due to semi-feudal conditions in the villages, high interest rates in the country, etc. As we shall see in Part Two, State intervention in economic affairs has given rise to new hopes for industrial capital formation. The relatively fast growth of private industrial investment during recent years has been possible precisely because of the volume which Indian big capital's operations reached long ago.

NOTES TO CHAPTER IV

(1) This is, of course, only an approximation. It has been calculated from budgetary statistics and from information in N. Kaldor's *Indian Tax Reform.*

(2) See in particular *N.S.S.-10*, p. 24.

(3) This figure has been calculated from budgetary statistics and from N. Kaldor's estimates of tax evasion (cf. *op. cit.* pp. 104 and 105). The estimate includes all capitalist income which is legally a salary.

(4) *Ibid.* p. 133.

(5) *S.I.F.* 1955.

(6) Under this heading come all shares which do not give control over the total capital or assets of the company which issues them. They are mainly preferential shares which do not carry voting rights, debentures,

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and ordinary shares held by outsiders but not in numbers large enough to give controlling rights (*v. S.I.F.* 1955, pp. 11 and 19).

(7) The first of the two figures on this line shows the net sum of investments made in India by these firms and companies; this net total is calculated by finding the difference between the companies' assets in India and their liabilities. If the difference is positive, the surplus corresponds to the net foreign investment; if the difference is negative, this means that the branches of foreign firms have a net excess of assets abroad, which does not diminish the control they have of their firms' assets in India (cf. *ibid.* pp. 20 and 22).

(8) The methods used here are those indicated in note 7. The considerable difference between foreign 'investments' and 'directly controlled capital functioning in India' is due to the sum of deposits made by foreign bankers with their branches and under the foreign bankers' direct control (*ibid.* p. 23).

(9) See notes 7 and 8 above. The negative balance of 'foreign investments' is caused by the fact that foreign insurance companies have placed part of their assets derived from insurance premiums paid by Indians with their branches abroad. It is evident that foreign capital operations can have a negative influence on domestic capital formation (*ibid.* p. 24).

(10) The second of the figures on this line shows the total value of the capital stock of the firms considered (213 joint stock companies). The first figure is the sum of the shares held abroad (*ibid.* p. 26). The total of capital directly controlled is obviously underestimated since only the total of *assets* is counted.

(11) The second figure on this line shows the total value of the capital stock of the firms considered (106 in all). The first figure is the sum of the shares held abroad (*ibid.* p. 28). Here again the total capital stock can be much less than the assets actually controlled.

(12) Managing agencies are an important feature of the non-agricultural capitalist sector of the Indian economy. Some of them were formed by foreign capital, some by Indian capital (in fact, the oldest go back to the time of the East India Company). These managing agencies control the companies they run by private agreements rather than by possession of company stock; on average, they hold only 15 per cent of any company's capital. The agreements are made on a twenty-year basis, with the possibility of renewal. In fact, the companies are almost entirely dependent on the agencies, and renewal is more or less automatic.

The first figure on this line shows the value of the shares held by the 36 foreign-run companies doing business in India at the time of the survey (*ibid.* p. 31). The second figure gives the total value of the shares held by the companies. Again, the capital directly controlled is underestimated because it is represented by the total of capital stock and not by the total of assets.

(13) The difference between this figure and the one also quoted by the *S.I.F.* 1955 (4,195 million Rs.) is due to a slight difference in the method of defining 'foreign' capital, with particular bearing on place of residence.

(14) According to Uma Datta and Vinod Prakash, India's reproductible wealth was 149·9 thousand million Rs. in 1949–50 (*v. P.N.I.*, p. 248).

(15) About 21·3 thousand million Rs. were tied up in the branches in question in 1949–50 (according to the sources quoted in Note 14).

In 1951, the productive capital of big industry, mines, electricity, and plantations was 14·06 thousand million Rs., of which 0·84 thousand million Rs. lay in the public sector (*v. The First Five Year Plan*).

According to the *P.N.I.* p. 248, the total sum of capital invested in these industries in 1949–50 was 18·5 thousand million Rs., 2·3 thousand million Rs. lying within the public sector.

(16) This capital still formed the main part of private foreign investment in 1953. At that date more than 82·6 per cent of the 4·3 thousand million Rs. of private foreign investment was British (against 85·2 in 1948, and 81 per cent in 1955) and 7·3 per cent was American (8·5 per cent in 1955).

(17) This table, taken from official sources, includes all companies registered in India with assets of 500,000 Rs. or more; that is, about 1,000 companies in India, and 93 registered outside the country but doing business in India. Companies registered outside the country, those controlled by foreign managing agencies, and those with a majority of foreigners on their boards have been considered as being controlled by foreign capital (*v.* A. Roy).

(18) Cf. J. Grache, 'A Short Outline of how big Industrial Capitalists arose in India' (in Russian) in *Utchonye Zapiski Instituta Vostokovedenija*, vol. x, 1954.

(19) Cf. M. M. Mehta, *The Combination Movement in Indian Industry*, Allahabad, 1952, pp. 11–13.

(20) M. M. Mehta, *The Structure of the Cotton-Mill Industry in India*,

p. 87, quoted by Levkovsky, *Some Peculiarities of the Development of Capitalism in India*, p. 267.

(21) M. M. Mehta, *The Structure of the Cotton-Mill Industry* . . ., pp. 84–5, quoted by Levkovsky, *Some Peculiarities* . . ., p. 266.

(22) This ratio of 5 to 1 is calculated on a basis of the dividends paid by the different sorts of enterprises. On the same lines is the following table taken from M. M. Mehta's study of 67 enterprises in Ahmedabad between 1929 and 1942.

No. of looms installed per group of enterprise	*Average Dividend 1929–42* (in per cent of the capital)
I. Less than 15,000	4·30
II. From 15,000 to 30,000	8·33
III. From 30,000 to 45,000	15·94
IV. From 45,000 to 60,000	27·45
V. More than 60,000	24·40

(M. M. Mehta, *The Structure of the Cotton-Mill Industry*, p. 161, quoted by Levkovsky, *op. cit.*, p. 267.)

(23) The Dalmia group also controls the *Indian News Chronicle*, the *New Bharat Times* (Hindi editions in Bombay and in Calcutta, Gujerati edition in Bombay), *Satyayug* (in Bengali, Calcutta), the *National Call*, the *Dharma Yug* (in Hindi).

(24) At the time when M. M. Mehta's study of the *Combination Movement in Indian Industry* was published, 9 financial groups controlled 600 big enterprises, and 20 directors of the four big Indian banks held 200 other directorships.

(25) The rates of interest on the money market are remarkably low for a country with India's level of economic development. In 1948–9, the current rate was $\frac{3}{4}$ per cent in Bombay and in Madras, and $\frac{1}{2}$ per cent in Calcutta. It has since risen steadily and is now between 2 and $3\frac{5}{8}$ per cent. The Reserve Bank of India's discount rate is usually 3 or $3\frac{1}{2}$ per cent. The interest rate on advances of the Imperial Bank and the State Bank is from 3 to 4 per cent. The interest paid on three-month fixed term deposits was $1\frac{1}{4}$ to $1\frac{5}{8}$ per cent in 1948–9, and rose steadily to $3\frac{25}{64}$ per cent in 1956 (*v. Reserve Bank of India Bulletin* and the *Monthly Abstract of Statistics*). In 1956–7 there was some tension over the bank rate, which rose above 4 per cent, reaching a maximum of $4\frac{13}{16}$ per cent. Bank agreements reached in 1958 halted the rise.

The interest rate on Indian Government Treasury Bonds was only 0·5 per cent in 1948 and, even after rising steadily, remains below 2·6 per cent. The dividend on property shares was between 2·8 and 3·8 per cent before 1948 for Government stock and, although naturally higher on variable income stocks, did not reach an average of 6 per cent.

There is a big difference between these rates and the rates of money-lending capital. According to the *R.C.S.*, agricultural loans in Bihar carried interest rates of 25 per cent or more at the time of the enquiry, loans in the Uttar Pradesh 29 per cent, in West Bengal and the Himachal Pradesh 40 per cent, in Tripura 49 per cent, and as much as 70 per cent in Orissa. Interest rates of more than 60 per cent were not rare, and in some districts applied to between 30 and 60 per cent of all loans. This means that the legislation which exists in practically all the States, fixing maximum interest rates varying between $5\frac{1}{2}$ and 24 per cent, is totally ignored. In West Bengal, Bihar, Orissa, Hyderabad and the State of Madras, about 85 per cent of all loans carry interest rates higher than the legal maximum. (Cf. *R.C.S.*, volume II, G.R., *op. cit.*, p. 174.)

V

THE PROLETARIAT AND THE PETTY BOURGEOISIE

THE strength of Indian big capital and the weakness of India's industrial sector at the time of Independence should not obscure the problems inherent in India's social structure. Here again it is evident that the country was in urgent need of industrialization; the cities were already large and growing, the concentration of manpower sometimes enormous. Another factor of vital importance was the size of India's proletariat and the situation facing a large part of the middle classes.

I. THE URBAN SECTOR OF INDIAN SOCIETY (1)

India's urban development has been affected by many conflicting forces which we cannot discuss in great detail.

First, there are the old cities which belong to India's pre-capitalist system. These towns have for centuries been the centres of political power. A large slice of the wealth produced by rural districts is absorbed by these cities in the form of rent and taxes. Their income is drawn from a part of the agricultural surplus resulting from the peasants' low consumption, and this surplus was for a long time used to enrich the princes or the administrators, subsidize their armies or police forces, and pay the innumerable servants and craftsmen who worked for them. These cities may have been centres of culture and civilization but their structure prevented them from giving any help to the villages in return for what they took. Under British rule, some of these ancient cities fell into decline. Among the reasons for their decline were the relative impoverishment of the rural districts, the growing number of intermediaries who each took a share of the rent and, above all, the centralization of much of the agricultural surplus. In some of these cities, the population has decreased. In others it has increased because it took an ever-increasing part in the production and trading associated with the rise of a commercial, capitalist economy.

The towns which have developed more quickly are those directly

affected by the new economy—Bombay and Calcutta, for example, and many other towns connected with the export trade, such as ports and road and rail junctions.

The statistics relative to India's urban population should be interpreted with these points in mind.

According to the first census after Independence the urban population had reached nearly 62 million people, greater than the whole population of France or the United Kingdom. But the figure is only 17·3 per cent of India's total population.

The biggest towns have a large share of the urban population: those containing more than 100,000 inhabitants house more than two-fifths of the urban population. Among them are cities with a population of more than a million; Bombay (2·8 million), Calcutta (2·6 million; or, if Howrah is counted as well, more than 3 million), Madras (1·4 million), and Hyderabad (more than one million). In much the same category are the cities of Delhi, with a population (New Delhi included) of more than one million, Ahmedabad and Bangalore.

Most of these big cities grew very rapidly between 1941 and 1951. Whereas the total population of India increased by less than 12 per cent during this period, that of towns with over 100,000 inhabitants increased by 36 per cent. Calcutta's population almost doubled and Bombay's grew by 168 per cent. Since Independence the growth has accelerated—above all in the big cities—giving rise to complex social and economic problems (increase of urban unemployment, worsening housing conditions etc.).

The rapid growth of the urban sector is due to its vitality, not to the growing pressure of the rural population on unequally distributed land. But we should neither overestimate the degree of Indian society's urbanization, nor exaggerate the influence of the cities on society and on the economy as a whole.

As the country is not highly industrialized, the modern economic activities typical of the urban sectors of industrialized countries are still underdeveloped, even in the big cities. (2)

The urban working force consists mainly of wage-earners (55 per cent in fact). (3) The second largest group contains those who work for their own profit, without employing hired labour (about 32 per cent). The employers (that is to say, the managers) constitute less than 1 per cent of the working population. (4)

These figures show that *the proletariat is relatively numerous in the*

Indian towns, since more than half of those who are economically active live by hiring out their working capacities. In the big cities, the percentage rises from more than 50 per cent to nearly 75 per cent. The size of the proletariat also indicates the concentration which is characteristic of India's economy. Two-thirds of the working class can be found in industry, mining, construction, transport and communications, and the gas and electrical industries. Despite the relative weakness of industrialization, it can be seen that India's urban proletariat is mainly an industrial group.

There are still many traces of the traditional economic and social structures in the towns; in fact, the towns do not necessarily contain all the workers who are connected with the development of a capitalist economy. We must therefore study these social groups independently of their geographical distribution.

2. INDUSTRIAL WAGE-EARNERS

According to the 1951 Census, there were 13,540,000 non-agricultural wage-earners in India, and more than 4,600,000 of them worked in industry. (5) The latter are therefore equivalent to 11·5 per cent of the total number of agricultural wage-earners. The 4,600,000 did not all work in *large-scale* industry; the figure also included those working in *small-scale* industry, including of course rural or traditional industries.

The 'industrial working class' is employed mainly in industrial establishments coming under the jurisdiction of the Indian Factories Act (6) as well as in the mines and ports, on the railways, and in other forms of modern transport. In 1950, there were nearly 3 million factory workers (7), more than 444,400 miners (8), about 1,200,000 municipal transport workers, and about 100,000 dockers and port employees.

The nucleus of the Indian industrial working class consists of about 4·5 million workers (9), or 16 to 20 million people if we include their families. This is quite a large group, especially as it is concentrated in a few States. The State of Bombay contains nearly 800,000 factory workers in a population of less than 36 million; West Bengal (pop. 24·9 million) has 650,000 factory workers, and Madras (pop. 57 million) has nearly 400,000. Within these States, as in the industrial areas of other States (Uttar Pradesh and Bihar in particular), the factory workers are heavily

concentrated in a few towns or industrial zones which thus have a strongly proletarian character.

On the whole, the establishments in which these workers are employed have a relatively high degree of concentration: in 1950, the 3 million or so factory workers were employed by 31,761 establishments, which gives an *average factory employment* of 94 workers per establishment. (10)

Obviously this average figure does not fully represent industrial concentration. In West Bengal, for example, the jute factories employ 2,500 workers per factory on average, and the cotton factories 1,000. The figures are much the same in the cotton factories of Uttar Pradesh and the State of Bombay, and in the chemical or fertilizer and tyre factories of Eastern India.

Nine-tenths of textile factory workers are employed in establishments with more than 1,000 workers. The same is true of about two-thirds of metallurgical factory workers and of more than half of the workers in the mechanical industries.

The Indian industrial proletariat is, then, mainly employed in big industrial enterprises. This is favourable to labour and trade union movements, which explains why the Indian working class, although it is exploited on a large scale, has been able to obtain some satisfaction of its demands for better economic and social conditions. Its solidarity and positive action have won it certain concessions, especially in legislation over working conditions. But whatever the working conditions, the workers' standard of living in a country like India depends almost entirely upon their income in the form of wages.

The Wage-Level

The figures for big industry are the best known, and it is these that we shall analyse. One should remember, however, that they are always much higher than the wages paid by small establishments. In 1950, the average earnings of industrial workers (11) totalled about 80 Rs. per month, or 2·7 Rs. per day. A very large number of workers had to support at least four people on this wage, which works out at an income of slightly less than 0·70 Rs. per person per day.

It must not be forgotten that the above average includes the income of workers earning as much as 2,400 Rs. per year, and that some workers are employed for only part of the year.

In 1950–1, the annual net value of production in big industry was

about 1,700 Rs. per worker. The wage is a little more than half of this figure.

Also in 1950, the average yearly earnings of a miner (if we multiply the daily earnings by 300) was about 740 Rs. in the coal mines and about 412 Rs. in other mines.

The Stability of the Working Proletariat

It has been said that the Indian proletariat is 'transitional' in the sense that it consists of workers who come to work in industry for a few years before returning to their villages. If this were so, one could hardly speak of a true proletariat.

The present situation is very different. It is true that the industrial workers keep in contact with their villages, but this does not mean that they are temporary migrants. Unfortunately, precise figures in this field are lacking. But according to the I.S.I. report on unemployment, 53·6 per cent of the urban population surveyed were born in the place where they lived at the time of the survey. The proportion of wage-earners born in the same locality was a little lower (46·5 per cent), but not far below half. One important finding was that among the migrants (excluding displaced persons) 28 per cent had been in the same place for more than 6 years, and 39 per cent for more than 4 years. The industrial proletariat is stable enough to have an appreciable strength by virtue of its solidarity.

3. THE NON-AGRICULTURAL MIDDLE CLASSES

In any country, it is difficult to decide exactly which social group constitutes the 'middle classes', and the task is even harder where India is concerned. The following categories are usually included in the term: on the one hand, business and office workers, and civil servants; on the other hand, the petty bourgeoisie, in particular small tradesmen, small industrialists and craftsmen employing a few wage-earners, and 'independent workers' (doctors, lawyers, etc.).

This is not a strictly satisfactory classification, for the group consists of two distinct social categories.

The first contains a part of the wage-earning classes, but is distinguished from the working class in the strict sense of the term by the fact that it does not take a direct part in material production. It does represent, however, a part of the proletariat in the large sense of the term.

The second category is distinguished from the first in economic terms by the fact that its members sell products or services to their clients instead of selling their working capacity to an employer in return for a wage.

The distinction between the bourgeoisie and the petty bourgeoisie is more or less a conventional one (which does not mean that it is any less real in any given society). It depends firstly on the type of work done, and secondly on the income level. Thus, some doctors or lawyers belong to the bourgeoisie if they earn more than a certain figure.

It may be useful to contrast the situations of these two categories, for they belong to much the same income group. Besides, it is sometimes difficult to decide from statistics how much of the information applies to the small bourgeoisie and how much to non-industrial wage-earners.

If we use the expression 'the middle classes' to denote a particular income group, the following observations can be made.

The non-agricultural middle classes contain about one-fifth of the non-agricultural population, whereas the working class contains about one-seventh or one-eighth. The rest of the non-agricultural population —about three-fifths—consists of the social groups doing traditional non-agricultural work: craftsmen and small shopkeepers.

Some of the new members of the petty bourgeoisie and some of the new members of the proletariat originally belonged to the last-mentioned group. Many of those doing traditional work are already part of the proletariat (having none but very rudimentary means of production) and form a kind of 'sub-proletariat' in the sense that they do not belong to the wage-earning class. This last group gains strength quite slowly, absorbing the proletariat from the country who come to the towns to get manual work.

Non-Industrial Wage-Earners

The category of non-industrial, non-agricultural wage-earners includes the following professional groups: civil servants, commercial employees, bank and insurance employees, office workers (in the industrial sector, mining and transport), those employed by the private or the State educational system, health and medical service employees, those working for business agencies, for lawyers, for the press and for postal services.

The total strength of these professional groups (12) is less than 5 per cent of the total Indian working force and about 20 per cent of the

non-agricultural working force. These proportions are low, and yet the non-industrial wage-earners number more than three-quarters of what are called the middle classes.

If we admit that they number 7 million, then non-industrial, non-agricultural wage earners are *more numerous than the wage-earning workers in the modern industries*. This fact, indicating the low level of India's industrialization, has important consequences.

Non-industrial wage-earners are grouped mainly in the towns, where intellectual and political activity is greatest. Their aspirations have therefore a strong influence on the ideology—although perhaps not on the actions—of the main political parties.

Their influence is increased by the fact that the upper strata of this class are the most cultured sections of the community. Most of those who read newspapers and journals, and whose personal opinions carry some weight in society, belong to this class. Also, they are as numerous as all the other categories of non-agricultural wage-earners, with the result that the working proletariat is in a minority within the wage-earning class (excluding agricultural workers), and the wage-earning middle classes in the majority. This is the result, as we have noted above, of weak industrialization; it is also the case because city development under foreign rule was mainly commercial and administrative. The unusual structure which, as we have explained, can be seen to exist in the wage-earning class has important social and political consequences.

The Non-Agricultural Petty Bourgeoisie

This class is estimated to contain 2·1 million people. (13) The working force of the petty bourgeoisie is therefore less than 1·5 per cent of the total working force and less than 5·3 per cent of the non-agricultural working force.

The low proportion of the urban petty bourgeoisie is also related to the lack of industrialization and to the economic power of the big bourgeoisie, who dominate a *highly concentrated* capitalist structure. They leave little room for small or medium-sized enterprises (particularly in the industrial field), which causes a corresponding increase in the numbers of wage-earners.

The Income of Non-Industrial Wage-Earners

In India, as elsewhere, statistics relative to this type of income are very limited. Where and when they exist, the incomes of any one

professional group seem to vary considerably. This may partly correspond to a real difference in income due to differing social and economic situations, but it does not help us to reach satisfactory averages.

Even so, it will be useful to give some figures illustrating the level of incomes. Here are some of the statistics calculated when India's National Income was analysed.

YEARLY PROFESSIONAL EARNINGS OF SOME NON-INDUSTRIAL WAGE-EARNERS (1950–1) (IN RS.) (14)

1.	Business employees (other than in banks and insurance companies)	740
2.	Bank employees (15)	2,000
3.	Railway and postal workers	1,600
4.	Civil servants	1,100
5.	Education	660

According to these figures, groups 1 and 5 are the worst paid, their incomes being even lower than those of the workers covered by the Payment of Wages Act. Monthly earnings work out at 55 Rs. in education and at a little less than 62 Rs. in business.

At the other end of the scale are the bank employees with 175 Rs. a month; but this figure is swollen by the comparatively high salaries at managerial levels which are included in the banking income group.

At this date, the 'typical monthly income' for these non-industrial wage-earners lay between the average for civil servants and the average for railway and post office workers (16); i.e. between 100 Rs. and 130 Rs. per month.

The petty bourgeoisie's income is always less well known than that of the wage-earners, and so the figures which follow are merely approximations.

According to the *F.R.N.I.C.* estimates, the average yearly earnings of business employers and 'independent' workers (excluding banks and insurance companies) who were not subject to income tax was about 1,680 Rs. per year or 133 Rs. per month in 1950–1. As this is the largest section of the petty bourgeoisie, the above figures may be considered representative of incomes in this social class, although the exact figures may actually be anywhere within a range of 30 or 40 per cent of those given above.

The dividing line between the petty bourgeoisie's income level and that of the bourgeoisie is somewhat arbitrary. In India, it may be put at 10,000 to 12,000 Rs. per year. Treasury statistics show that only about 100,000 persons engaged in commerce earn more than this income out of the 5 million commercial employers and 'independent workers'.[1]

The average income of the industrial petty bourgeoisie is apparently appreciably higher than that of the commercial petty bourgeoisie, but there is not enough material available for us to give any significant approximations.

Finally, professional incomes are also difficult to estimate, but from the *F.R.N.I.C.* data it can be said that the income of employees and 'independent workers' in the professions was about 2,600 Rs. per year (220 Rs. per month). The real figure may have been very much higher because of non-declared income; it is thought that only one-quarter of the taxable income in the professions is actually declared. (17)

The main point suggested by the foregoing analysis is that the normal income among the petty bourgeoisie lies between 150 Rs. and 400 or 500 Rs. per working person per month. Above this level one finds the upper middle classes, who occupy a position between the middle classes and the bourgeoisie.

General Observations on the Petty Bourgeoisie

The petty bourgeoisie is not at the head of the middle classes, and its activities do not lie within the scope of the modern economy (which is dominated by big capital).

The non-agricultural section of the petty bourgeoisie is mainly occupied in trade, transport, and services. Only a very small section does industrial work. Nearly half of the petty bourgeoisie is occupied in the commercial sphere, mainly in activities related to dealings in agricultural produce, bank operations, or moneylending. This section of the petty bourgeoisie is not likely to be interested in the possibilities offered by industrial capitalism. Its members are essentially conservative; it is interested in preserving the traditional structures within which it works. It is also interested in keeping the peasantry impoverished, for it benefits

[1] In 1950–1, there were only about 181,000 people subject to income tax and their average income was 10,118 Rs. per year (*F.R.N.I.C.*, p. 82). At this period, tax had to be paid on incomes of 3,000 Rs. and above. At present it is estimated that in commerce only 60 per cent of officially taxable income is in fact taxed. The real average income of those subject to income tax would therefore have been about 16,000 Rs. per year.

from the importance of moneylending capital in the villages, and it can buy agricultural produce at low prices after the harvests. In addition to these factors, its outlook and its mentality are hardly progressive.

The Indian petty bourgeoisie naturally supports conservative or even reactionary policies, and therefore the traditionalist, orthodox or communalist political parties. But because it needs the support (and often the complicity) of those in power in order to impoverish and pillage the masses, it generally backs the régime in power just as long as there is little interference from above. The anti-progressive nature of the petty bourgeoisie is particularly evident because the rural section of the middle classes is larger. The rural section of the small bourgeoisie consists of the *Maliks*, moneylenders, rural merchants, etc., with the exception of those who are generally rich enough to be considered as part of the bourgeoisie. This section is five to six times as large as the non-rural section. It is therefore the decisive section of the Indian petty bourgeoisie.

Force of numbers is not the only factor which determines the power of a social group. Economic strength, the possession of the biggest means of production, and the direct control over political power and over the instruments of information and of repression are really what allow one social class to dominate all others. However, the balance of power among the different layers of any one class (their numerical importance and their relative economic strength set aside) depends on the degree of political awareness of each layer and its active rôle in working out a political programme acceptable to the other social categories; on its geographical concentration; and, finally, on its capacity to organize itself.

The non-rural petty bourgeoisie is the stronger on all these points although it is numerically weaker than the rural section. That is why the rich peasant was not the main figure on the Indian political scene after Independence. The political parties which seek the petty bourgeoisie's vote do not apparently seek to attract the rural bourgeoisie in particular.[1]

However, the non-rural bourgeoisie is too weak socially to do without allies, and since its only interest is in maintaining the *status quo*,[2] its allies are normally the rich peasant and the various types of rural

[1] But the parties' *actions* are largely dictated by the better-off rural classes (i.e. the important people in the villages). However, the Swatantra Party—openly supporting the richer peasantry—has recently been created.

[2] It is possible that things are changing without any help from the petty bourgeoisie. If the market is growing larger, some members of the non-agricultural petty bourgeoisie may end their alliance with the richer peasantry.

capitalist. As we shall see in Part Two, this explains to some extent why agrarian reforms which would have given the land to those who work it have been blocked.

General Observations on Non-Industrial Wage-Earners

If the non-industrial, non-agricultural wage-earners' standard of living is generally much higher than those of the working classes and the peasantry, it is still low. The families of this class are often in debt, and the quality of their food is often at minimum standard even when the quantity is above the minimum ration.

These facts must be understood if one is to realize why most of the wage-earners belonging to the middle classes feel cut off from the bourgeoisie.

The white-collar workers and minor civil servants accept State intervention in economic affairs because of their social position. They even think it desirable. They hope that the State may protect them from being exploited by big capital, speculators, moneylenders, etc.

In such conditions, only a small section of the population is prepared to support an economic programme based on free enterprise (i.e. capitalism). Many more would favour a socialist programme, as would those who live in the towns.

These facts also help us to understand the longing for better conditions among this section of society. They fully realize that economic development could better their own conditions and the state of the country as a whole. They can see for themselves in newspapers and journals what is happening in the rest of the world. Their political awareness induced a large number of the middle classes to join the nationalist movement. For them, Independence was a question both of self-management and of the dawn of a new era in construction and economic development. They supported the Congress Party with these hopes in mind.

Once the Congress Party was in power, it depended on one or both of the two groups: the wage-earning middle classes and the petty bourgeoisie. Hence, the contradiction which we shall discuss below.

To sum up, the non-agricultural sector of Indian economy at the time of Independence was characterized by a high concentration of capital and by the domination of both foreign big capital (mainly British) and Indian big capital. The former was mainly active in the export field, but, as we have seen, its influence was to be felt in other spheres.

Below this fairly powerful superstructure controlled by financial capital lay a weak industrial framework. Its operations were limited by the small and non-progressive rural market and by the monopolistic positions of the financial and industrial groups. In this situation, there arose a proletariat and a petty bourgeoisie whose conditions we have explained above.

Indian industry has progressed, although its rate of development has been slow. The second world war helped to consolidate the positions of Indian big capital. The big bourgeoisie emerged from the war strengthened and ready to direct the new State which had been created. We shall see how it succeeded in doing so when we examine its position in recent years.

ANNEX

THE CASTE SYSTEM IN URBAN LIFE

City life has completely undermined the economic foundations of the caste system. (18) But the system has not disintegrated even in the towns, and its ill effects continue to hamper social and economic progress.

The Destruction of its Economic Basis

This is shown by the fact that the traditional link between castes and occupations has almost entirely disappeared in the towns. First, many new occupations have been created; and secondly, the old professions have been opened to members of different castes. Urbanization and industrialization have *completely changed the social division of labour*.

A survey carried out between August 1936 and the beginning of 1938 in the town of Poona (but published only in 1945 and 1952) reveals some of the reasons why the traditional links between certain occupations and certain castes disintegrated. Professor Gadgil was the author of the report based on this survey. He particularly insists on the fact that occupations which were dying out remained closed, whereas those in the process of expansion were opened up.

However, the occupations considered to be 'impure'[1]—for example, washing other people's clothes, providing lodgings, giving bodily care to

[1] L. Dumont is very careful to point out the distinction between 'pure' and 'impure' as an example of religious beliefs acting in society. (See *Une Sous-caste de l'Inde du Sud*, pp. 415 *et seq.*)

those who are not members of one's own family[1]—were not usually accepted by Brahmins.

One question which must be settled is how much the economic basis of the caste system has changed. It is important to note that the new hierarchy of occupational incomes does not differ greatly from that of the old hierarchy. In other words, those placed by tradition high in the order of castes are often at the top of the scale in the cities. Professor Gadgil points this out in the report quoted above. Consequently, it can be said that the old degrees of prestige have been replaced by roughly equivalent degrees of economic and social power. But there are certainly many exceptions to this rule, particularly in the case of the Brahmins.

On the other hand, the majority of the Indian capitalist class is not composed of Brahmins. Most commercial and industrial capitalists belong to non-Brahmin communities: Parsees, Vayishyas of Gujarat, and Marwaris. Group solidarity is obviously important in this sphere and especially in business relations. Two trends can be detected.

Firstly, inter-group tension (between the communities of business men, usurers, industrialists, etc.) combined with a dislike of capitalism and of capitalists.

Secondly, the same state of affairs is prevalent among the Brahmins (i.e. among a large section of the intelligentsia).

It is difficult to show exactly how economic and social power replaced prestige. The main reason for the change seems to have been the following. The 'higher' castes possessed either money or education or both and thus it was not difficult for them to take the lead in the new commercial, administrative and industrial structures which formed in the towns. The 'lower' castes were hampered by their lack of money and of education.

Thus the new class structure has not really replaced the old; it has simply grown up upon the remains of the existing framework. The distance between the castes has not been bridged, but the fact that social classes are not closed to new members has shaken the foundations of the caste system.

It is still true that members of widely separated castes do not generally become friends. One cannot say whether there have been an increasing number of exceptions to the rule, for research has yet to be done in this

[1] It is very difficult to recruit nurses from any but the 'lower' castes or the 'untouchables'. Fortunately, there are exceptions, and in ever increasing numbers.

field; but it seems to be the case in the larger towns. The distance between the castes is probably at its minimum in Bombay and in Calcutta.

The contrary is true of small non-industrialized towns like Poona. The phenomenon can be seen geographically, the 'higher' castes living in the western part of the town.

The effect of partition and in particular the massive exodus of Hindus from Pakistan into India caused unprecedented overcrowding in some areas. Those who could find employment were prepared to accept any job whatsoever, even if their social situation was drastically changed. The disruption of the caste system was undeniable, but took place in a few well-defined areas. It had no real effect on India as a whole.

The Influence of Non-Economic Factors

In the cities, factors of a different type also helped to weaken the caste system; for example, the extension of education and the imitation of Western customs. Workers were forced to collaborate with members of other castes. Class welfare and communal strike actions also played their part. One can see, however, that economic causes lie behind these apparently non-economic factors.

Another important factor was the weakening of class solidarity and class pressure on the individual. In rural districts, any infringement of the unwritten rules would be noticed and perhaps punished by the caste *panchayat*. In the towns, it is obviously more difficult to control other people's actions.

The result of the influence exercised by both economic and apparently non-economic factors was that many caste rules (both social and ritual) fell into disuse.

The Survival of the Caste System in Urban Life

It should not be understood from what has been said above that the caste system no longer has any influence in urban life. Only in exceptional situations are the forces of disintegration strong enough to counterbalance caste influence. But it is certain that modern industrial life is incompatible with the methods of the caste system, which will founder eventually under the growing weight of India's industrialization.

As Professor Gadgil remarks, the reason why the caste system still exists in certain towns is that they are not industrial centres. The term 'country towns' has been used to suggest that this sort of town still has strong links with the villages.

Even when the system appears to have disintegrated, some of its elements remain. There is still a certain economic and political solidarity among the members of the same caste. In urban life, this may give rise to new institutions: associations, federations, or even political parties based on membership of the caste in question. The action of such organizations extends as far as the villages.

The organizations may group members of one caste, or of a group of castes,[1] or of a community.[2] They promote caste consciousness, but in conditions very different from those which were traditional.

The Survival of the Caste System: Its Ill Effects

From a social point of view, the survival of the caste system is a source of tension which cannot be eased because there are no real divisions in urban industrial life which correspond to the caste structures.

We have already noted that the caste spirit is detrimental to political, administrative and economic organizations and that it is contrary to democratic social progress. Even when parties do not base their propaganda on caste or community problems, the electors are often moved by caste or community considerations. The maintenance of the caste system (or merely of caste spirit) makes the individual feel that his social position has been determined by his birth and family connections. Even in the towns, there is still considerable family pressure, despite the fact that the individual may feel himself completely independent of his family. The pressure of the older generation on the young is essentially conservative.

J. P. Desai writes on this subject: 'When the moment to decide finally comes, the individual does not follow his own tastes and aptitudes. He chooses according to the interest of his group, and in particular, of his family. Consequently, his decision may be of lesser social importance than it ought to have been, and the caste system continues to reign. The total effect on society is that life goes on and changes are very slow to come.'[3]

The pressure of the older generation also tends to reduce social mobility, restrain initiative, and perpetuate the existing social structure.

[1] Sometimes there are groups of similar castes, but each caste keeps its own personality. (Endogamy is still practised, for example.)

[2] These communities normally contain persons from the same region having the same religious beliefs, or speaking the same language. A tendency towards 'communalism' is said to be typical of India.

[3] J. P. Desai, 'Caste and family' in *E.W.*, February 27, 1954, p. 249.

Such conditions are highly unfavourable to rapid social and economic progress.

Factors Which Help to Maintain the Caste System in Urban Life

The main reason why the caste system survives in urban life is that it is still enforced in rural life. Although it has been undermined in the towns, the country's influence is still strong and links between the towns and the country have not been broken. Thus, agrarian reform and newer farming techniques are as important as industrialization if the system is to disappear.

A second factor is the network of economic conditions resulting from the centuries of British economic domination. As we have already pointed out, there was little economic development during the colonial period. Those living in the towns—and especially the poorer classes—had to defend their rights by community action, and the caste system offered the simplest form of association. This presumably explains why caste spirit is strongest among the poorest sections of the urban population, except among the industrial proletariat. The latter, according to the information available, are the least subject to caste influence, no doubt because of the equalizing effect of proletarian life.

We know little of caste organization within the industrial proletariat. It is widely thought that they belong mainly to the 'lower' castes or to the outcasts. This may have been true when industrial development first began, but conditions seem to have changed in the last twenty years. In 1940, a survey of 38,000 workers in the Bombay textile factories showed that 60 per cent of the Hindus were *Marathas* and *Kunbis* (quite highly placed agriculturalist castes), whereas only 15 per cent were *Harijans* (or 'untouchables'). However, other surveys in various industries and regions (Delhi, Najpur, and Indore) met with 79 per cent of *Harijans* between 1950 and 1953.

Even among the industrial proletariat there is still a sense of caste separation. Endogamy is still practised and members of different castes do not usually pass their leisure hours in one another's company. But they have to work side by side, live in the same blocks of buildings and draw water from the same taps. As we have said above, trade union action and class solidarity are stronger than caste solidarity. (19) This will be an important factor in India's future social and political development.

Allied to the pressure of the older generation on the younger is the

traditional system, still in force, of arranged marriages, the bride and bridegroom meeting for the first time during the marriage ceremony. This is still the rule in the country, and is very frequent in the towns.

However, in urban districts, 'prepared' marriages are becoming more frequent than 'arranged' marriages; that is to say, the future bride and bridegroom (still chosen by the respective families) meet before the ceremony and may object to the projected marriage. It is still *quite exceptional* for the couple to choose freely.

If marriages are arranged by the families concerned, there is no particular reason for choosing partners from different castes. There is every reason against doing so, for this would only cause social resentment. Thus the homogeneity of the castes is safeguarded by marriage traditions.[1]

Family pressure is increased by the system of joint family ownership and by the help which a family will give if one of its members is in trouble; an Indian form of National Assistance, one might say.

It is not true that the caste system is entirely responsible for the Indian economy's lack of progress. Its effect is certainly negative, but it is rather the lack of economic progress which is responsible for the survival of the caste system and its influence than the contrary.

On the other hand, if conditions were ripe for rapid economic development, the caste system would act as a brake. The system must therefore be changed as soon as possible. Agrarian reform and measures ensuring personal economic security (and therefore personal independence) are of the utmost importance. Free education, a scholarship system and a health service are essential if economic progress is to become a reality.

[1] The few inter-caste marriages which take place usually concern members of the 'higher castes' which are more readily influenced by modern ideas. The hostility which these marriages entail may be great in the country, but it is less violent in the towns. The Communist and Socialist parties are in favour of inter-caste marriages, as are some organizations created to promote the change: the *Maharashtra Samajik Parishad* in the Maharashtra (mainly composed of Brahmins, the *Arya Samaj*, and a few other groups.

NOTES TO CHAPTER V

(1) The caste system in the towns, being of secondary importance, is examined in the Annex to this chapter.

(2) The 'pre-industrial' structure of the towns can be clearly seen from the following table:

ANALYSIS OF THE URBAN WORKING FORCE BY OCCUPATION

	(in millions of persons)*
1. Occupations of an agricultural type	3·3
2. Small handicraft and industrial enterprises	5·2
3. Domestic, personal, and health services	3·0
4. Railways and communications	0·9
5. Trade; and other forms of transport	5·6
6. Professions	2·0
7. Administration	1·8
8. Mines and the big processing industries	1·4
	23·2

Occupations nos. 1, 2, 3 and, to a certain extent, 5 can be considered as the equivalents of traditional and rural occupations; in any case, they have nothing to do with modern industrial activity.

(3) This percentage is calculated from the *N.S.S.-14*, p. 54. The percentage of wage-earners increases in proportion to the size of the town. In the towns with less than 15,000 inhabitants, it is only 48 per cent; in the largest cities, it is 72 per cent (*ibid.* p. 54).

(4) The remaining fraction of nearly twelve per cent consists of 'non-paid family helps', many of whom are in fact under-paid wage-earners and relatives of their employers.

(5) The following table gives an analysis of wage-earners by industrial occupation (according to the Census):

* These estimates for the year 1952–3 are given by Uma Datta, S. K. Chakravarti and V. Srinavasan in a report published in the *P.N.I.*

INDUSTRIAL WAGE-EARNERS (IN 1951)

Mines and quarries	445,000
Food, drinks and tobacco	469,000
Textiles	1,618,000
Leather and skins	83,000
The metallurgical, engineering and equipment industries	613,000
Chemical industries (including petroleum, coal, rubber and drugs)	104,000
Non-metallic mineral products, construction materials and wood other than furniture	357,000
Furniture and other wooden products	9,000
Paper-board and printing	118,000
Other processing industries	108,000
Construction	714,000
	4,638,000

(6) Since 1948, this law applies to all establishments employing 10 or more persons with motor-power and those employing 20 or more persons without motor-power. Smaller establishments can come under the law's jurisdiction in exceptional cases.

(7) This is the figure used by the *F.R.N.I.C.* (p. 23) to allow for absenteeism (*v. ibid.* p. 17). The average number of workers employed was 2·4 millions (*S.A.*, 1957–8, p. 511).

(8) The last figure is that given in current statistics (based on the reports of the Mining and Petroleum Office and of the Chief Inspector of Mines).

(9) A. Myers, who includes in his estimate of industrial manual workers those working on plantations, in public services, in communications and on construction work, gives a figure of 7·93 millions (*v.* Charles A. Myers, *Industrial Relations in India*, Bombay, 1958, p. 10).

(10) The enterprises employing wage-earners but not covered by the Factory Act have an average of less than two workers each. These are obviously enterprises of a handicraft kind.

(11) Cf. *India at a glance*, Calcutta, 1953, p. 725. The salaries given here apply to factories coming under the Payment of Wages Act and concern workers and white-collar workers earning at the most 200 Rs. a month; the average wage is, of course, much lower. The figures are for non-seasonal work only. They have been reached by dividing the total of wages paid in one year by the average number of workers employed.

(12)

APPROXIMATE NUMBERS OF ACTIVE NON-INDUSTRIAL WAGE-EARNERS (IN 1950–1)

1. Trade	1,135,000
2. Education and research	675,000
3. Medical and health services	200,000
4. Business and law	140,000
5. Journalism, etc.	15,000
6. Social, religious and charitable institutions	100,000
7. Civil servants	3,900,000
8. Big industry and mining	210,000
9. Postal services	200,000
10. Railways and municipal transport	200,000
	6,775,000

The figures for 1 to 6 and for 9 are taken from the Census (and are given to the nearest round figure). The figure for 7 is to be found in the *F.R.N.I.C.*, p. 23. Those for 8 and 10 correspond to theoretical probabilities; namely, that 6 per cent of the wage-earners in big industry and in the mines are white-collar, and not manual workers (although 6 per cent is certainly a minimum; the N.S.S. report puts the figure at nearer 10 per cent in the establishments studied (*v. N.S.S.-II*, p. 12, table 5·2); and that a quarter of the wage-earners in railways and municipal transport are white-collar workers. The same proportion of white-collar workers was allowed for in our estimates of industrial wage-earners.

(13)

APPROXIMATE NUMBERS OF THE ACTIVE, NON-AGRICULTURAL 'PETTY BOURGEOISIE' IN 1950–1

1. Non-agricultural employers	1,100,000
2. 'Independent workers' in health and education services	23,000
3. Professional 'independent workers' (law, letters, journalism, etc.)	100,000
4. 'Independent workers' in wholesale trade, banks, insurance companies, moneylending, etc.	473,000
5. Other 'independent workers'	380,000
	2,076,000

All these figures have been calculated to the nearest round figure from the Census statistics. Line 2 comprises the occupations of lines 2 and 3 of the preceding table; line 3, those on lines 4 and 5 of the preceding table. The figure on line 5 corresponds to 10 per cent of tradesmen other than those in wholesale trade and bankers, who form the richest section of those not employing wage-earners. Likewise, on line 2 only 10 per cent of the best-off members of these professions have been considered as part of the petty bourgeoisie.

The approximate figure of 2·1 million people who make up the non-agricultural and economically active petty bourgeoisie is merely hypothetical—like the figure for industrial wage-earners—and it is difficult to say whether the figure is underestimated or overestimated. It is probably lower than the actual number, and may be considerably lower.

The figure may be an overestimation because there may be very small employers who should not really be included in the petty bourgeoisie, especially when they engage in manual labour. At the other end of the scale, employers at the head of big firms should perhaps be excluded, since they belong to the bourgeoisie proper. However, they are few in relation to the total number of employers; in 1948, only 10,000 industrial establishments were large enough to be covered by the Factories Act. Likewise, some of the 'independent workers' mentioned in the above table are not members of the petty bourgeoisie either because they earn too little or too much.

On the other hand, there are many reasons for considering that the figure is an underestimation. More 'independent workers' than those mentioned may belong to the petty bourgeoisie. The percentage given in line 5 (10 per cent) is an arbitrary figure; it might have been 7 or 12 or 15 per cent, as it is impossible to be completely accurate without more detailed statistics. There is one reason in particular why the estimated number of the non-agricultural petty bourgeoisie may be too low: it is impossible at present to judge how many people live mainly on income from property (i.e. from land and building rent, interests on loans or investments, dividends, shared profits, etc. The number would seem to be large, including both the economically active section of the population and those living off their revenues alone.

On the whole, it seems reasonable to accept the figure of 2·1 millions as an approximate estimate of the economically active non-agricultural petty bourgeoisie in 1905–1.

(14) *v. F.R.N.I.C.*, pp. 82, 91 and 108. The figure for education is given by the *F.R.N.I.C.* as an average income of all categories working in education (both teachers and other workers) but the average monthly income of 55 Rs. is roughly that of a primary school teacher.

(15) This figure has been recalculated allowing for the total of wages and salaries paid in this sector (*op. cit.*, p. 75) as well as for the salaries in the banking sector.

(16) The average earnings of these two categories include the manual workers' wages as well as white-collar workers' and managers' salaries, but the average income given seems to be fairly representative of the salaried groups and of the white-collar workers in particular.

(17) N. Kaldor, *Indian Tax Reform*, p. 105.

(18) The notion of an 'economic basis' to the caste system is certainly open to challenge. Our preceding analysis leads us to consider that its 'economic basis' is formed by a social division of labour according to the group a person is born into. The system also gives each of the social groups a particular position in the hierarchy, which gives rise to particular forms of exploitation and subordination. The hierarchy of the castes is to some extent flexible: when there is a change in a caste's status, it is usually linked to a change in its members' social and economic positions. But changes are not frequent, and there is a good deal of accompanying tension before things settle down again.

See L. Dumont, 'Caste, Racisme et Stratification' in *Cahiers Internationaux de Sociologie*, no. XXIX, 1960, pp. 91 *et seq.* for his ideas on the relationship between 'caste' and 'class'. The article also gives an excellent bibliography of the subject.

(19) Trade union leaders are chosen for their knowledge, loyalty and courage, not because they belong to a particular caste or community. An enquiry has shown that in Bombay the trade union leaders belong to widely differing castes and communities which do not correspond to the majorities within the movement. A study was made of 45 leaders; 25 were Brahmins, 5 *Kshatryas*, 3 *Banyas*, one a Muslim and two Christians: the majority of the members were non-Brahmins. These and other reports lead S. D. Punekar to conclude that 'language and caste have today little influence in the trade union movement' (cf. 'Outside Leadership of Trade Unions' in *E.W.*, July 1958, pp. 877 *seq.*; the above figures are also to be found in this article). However, some commentators think that the large number of Brahmins among trade union leaders is proof that the Brahmins still have considerable prestige with the other castes.

VI

INDIA'S POLITICAL STRUCTURE JUST AFTER INDEPENDENCE

ON THE fifteenth of August, 1947, the temporary government became the national government and the Constituent Assembly assumed full powers. The Assembly consisted of 292 elected members and 93 representatives of the Princely States. The elected members were sent to the Constituent Assembly by members of the Provincial Legislative Assemblies, who were themselves elected by the votes of about 20 per cent to 24 per cent of the adult population. The Indian Constitution was therefore ratified by an Assembly representing a minority of the population, a quarter of whose members were not even elected but claimed their seats by feudal right.

The new State's frontiers were laid down first of all by the law of Independence making British India into the two Dominions (India and Pakistan), and secondly by the acts of accession signed by the Princely States and the new Dominions.

Since Britain had renounced its claim to the Princely States, they could legally choose individual independence or integration with one of the new Dominions. Most of the Princely States' rulers felt that the desire for integration was too strong to be resisted, and almost all signed agreements with one or other of the Dominions before the fifteenth of August 1947. There were only three important exceptions: Junagadh, Hyderabad, and Kashmir. A popular rising brought the first of them into the Indian Union; the second was incorporated in 1948 after an Indian military action against the peasant movement which had developed within the State. Kashmir joined the Indian Union after the Maharajah had called for India's help when under threat of an invasion by Pakistan; the Maharaja's appeal was ratified by the members of the National Conference of Kashmir.

The Constitution and the new machinery of State were worked out between August 1947 and January 1950. The Constitution was finally adopted by the Constituent Assembly on November 26, 1949, and

India was officially proclaimed a Republic on January 26, 1950 by the acting president, Rajendra Prasad.

India's political structure should be analysed on two levels: first of all according to the legal terms of the Constitution (i.e. the theoretical instrument of power); secondly, according to the administrative and political forces (i.e. the different parties).

I. THE MAIN TERMS OF THE CONSTITUTION

The Indian Union's Constitution is an exceptionally long document, containing 395 articles and 8 annexes. It begins with a preamble proclaiming India a sovereign democratic republic and declaring that the object of the Constitution is to ensure that all citizens enjoy:

> '*Justice*, social, economic and political; *liberty* of thought, expression, belief, faith and worship; *equality* of status and opportunity; and . . . *fraternity* assuring the dignity of the individual and the unity of the Nation.'

These principles are developed in articles 15 to 31, which define the citizens' fundamental rights. Article 15, for instance, forbids discrimination on grounds of religion, caste, sex or place of origin. Consequently, the practice of 'untouchability' under any form whatsoever is punishable by law.

Article 31 defends the right of ownership, declaring that no one shall be deprived of his property, except by act of law.

The succeeding articles proclaim a certain number of 'directive principles'. They are not enforceable by law, but are set out in order to guide the governments in their actions. According to them, the State should promote 'the welfare of the people'. This idea is expressed in a number of declarations such as: '. . . the citizens, men and women equally, have the right to an adequate means of livelihood'; '. . . the ownership and control of the material resources of the community are so distributed as best to subserve the common good'; '. . . there is equal pay for equal work for both men and women'; '. . . citizens are not forced by economic necessity to enter avocations unsuited to their age or strength'; '. . . childhood and youth are protected against exploitation and against moral and material abandonment'. Unfortunately, these declarations have not really been put into practice.

The Central Executive Power

The Constitution legally institutes a system of parliamentary government, federal in nature.

The head of the central executive power is the President of India, who holds all executive powers (including supreme command of the armed forces) and in whose name all executive action must be taken.

The President is elected by an electoral college including members of Parliament and of the State Legislative Assemblies, chosen on a system of proportional representation (each vote has a value proportional to the population of that State which the voter represents). The presidential mandate is for five years. It may be renewed; it may also be repealed if the Constitution is violated. President Prasad was elected the first President of the Indian Republic on the sixth of May 1952.

The President makes all the important nominations. He may recall the two Chambers and address messages to them. He promulgates the laws voted by Parliament and may issue orders when Parliament is in recess.

In a state of emergency, or if the constitutional organization of a State does not function normally, the President may intervene in the State's affairs or suspend its constitution and place it under direct federal control. These federal powers have already been used.

The President is assisted by a Vice-President who is elected in a similar way, and who replaces the President if the latter is incapable of fulfilling his office. The Vice-President is normally President of the Council of States. Dr. S. Radakrishnan was the first Vice-President of India.

The Constitution provides for a Cabinet of Ministers led by a Prime Minister who advises the President on his decisions. The Prime Minister is nominated by the President, as are the other ministers on advice from the Prime Minister. The ministers hold office for as long as the President sees fit, and are collectively responsible to the House of the People (*Lok Sabha*). A minister who is not a member of one of the Houses for more than six months must surrender his portfolio at the end of that period.

All actions and decisions of the Government are taken in the name of the President of the Republic. He holds the executive power, but this power originates from the Parliament, to which the Prime Minister and his Government are responsible.

In practice, governmental action depends on the Prime Minister and not on the President, whose position is essentially representative.[1] The Indian political system has therefore much in common with the British system.

The Prime Minister is the second person in the country according to the list of precedence.

The office of President was assumed by Jawaharlal Nehru from the foundation of the Indian Union until his death in 1964.

The Legislative Power

Parliament, the seat of legislative action, is composed of two Houses: the Council of States and the House of the People.

The Council of States (*Rajya Sabha*) consists of 250 members at the most, 12 of whom are nominated by the President, the others being elected by the State Legislative Assemblies according to a system of proportional representation. The Council cannot be dissolved and can be changed by only one third at a time.

The House of the People (*Lok Sabha*) has a maximum of 500 members elected by the direct universal suffrage of adult Indians. A deputy's constituency should contain not less than 500,000 people and not more than 750,000.

The *Lok Sabha* is elected for five years, but may be dissolved by presidential decision. The Houses must assemble twice a year at not more than six-monthly intervals.

The business of the *Lok Sabha* is conducted by the Speaker or Deputy Speaker, each elected to his post. Decisions are reached by majority vote, provided there is a quorum of one tenth of the members.

The Supreme Court

The Constitution also provides for a Supreme Court consisting of a Chief Justice and, at the most, seven judges. The members of the Supreme Court can hold office until they reach the age of 65 and cannot be dismissed, except in the case of a serious charge proven against them or if they are incapable of carrying out their tasks. The dismissal must be ratified by a majority of two-thirds of the two Houses.

The Supreme Court is a court of appeal on constitutional, civil,

[1] According to the spirit of the Constitution and the intentions of the Constituent Assembly, the President's powers should be representative, but they can be interpreted in a stronger 'presidential' sense.

and criminal matters. It is the ultimate interpreter of the Constitution.

The States

The Federal nature of the Indian Constitution stems in particular from the fact that it explicitly recognizes the existence of the States. A list of them is published in an Annex to the Constitution. (1)

Following the recommendations of the State Reorganization Committee (2) and various government proposals, some amendments were made to the Constitution. They brought the statutes of each State into line, did away with any traces of the original Princely States (3), and made a move towards creating state boundaries which would coincide with linguistic frontiers. (4)

The present list of states is as follows: Andrah Pradesh, Assam, West Bengal, Jammu and Kashmir, Bihar, Gujarat, Kerala, Madhya Pradesh, Madras, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Uttar Pradesh. There are also a number of territories under the direct authority of the Central Government. (5)

In each State, the executive power is in the hands of a Governor who is nominated by the President: if need be, he can be divested of his functions by the President. The Governor, unless he acts in the name of the Central Government, must administer with the aid and advice of a Council of Ministers presided over by a Chief Minister.

The Chief Minister is named by the Governor, as are the other Ministers, although in their case the Governor should seek his Chief Minister's advice. The Ministers are collectively responsible to the State Legislative Assemblies.

All action by the Provincial Government is taken in the name of the Governor, who should be informed of the Council of Ministers' decisions, and of all projected legislative and administrative decisions.

As can be seen, the Constitution submits the Provincial Governments to a fairly strict central control, at least in theory.

The State Legislature consists of a Governor and one or two Assemblies according to the State concerned. In each State there is a Legislative Assembly which must have between 60 and 500 members: one member at the most per 75,000 inhabitants. The Assembly is elected by direct universal suffrage. In some States there is also a Legislative Council, some of whose members are elected by a limited section of the community, others being nominated without election. The Legislative

Assembly is elected for a period of five years. It can be dissolved.

A State's laws are passed by its own legislation. If a dispute arises between the two assemblies (where they both exist) the Legislative Assembly has the final word.

Legislation once passed by the Assemblies must be promulgated by the Governor unless he submits the projects to the President of the Republic. If the President withholds his consent, the project returns to the State Legislature and after a new vote is again submitted to the President.

During recesses, the Governor may legislate by personal orders if this is necessary.

One of the most important problems arising from India's political structure is that of the relations between the Central Government and the States. This is a problem which we shall now examine.

The Relations between the Union and the States

The relations are determined by Annex VII to the Constitution. The following are the essential points to be found in those pages.

The Indian Parliament can legislate on behalf of India as a whole, or on behalf of any one part. A State Legislature can pass laws regulating affairs in all or part of the State concerned.

The executive powers of the Central government are mainly applicable to military affairs, armament and munitions, atomic energy, foreign affairs, international treaties and agreements, Indian citizenship, immigration, the Reserve Bank of India, money, the central finances, interstate trade, company legislation, the banks, insurance companies, stock exchanges, patents, taxes on other than agricultural income, customs duties, the main indirect taxes, company taxes, capital taxation, and death duties other than those on landed property.

The central legislation's power is particularly great in the economic and financial spheres, as can be seen from the above list. This appears even more clearly if one considers the points on which there is equality of power between State and Federal legislations, namely: economic and social planning, rulings over matters concerning foodstuffs and drugs, monopolies and agreements, trade unionism and labour, industrial and commercial legislation, and price control. There are also equal powers over the questions of civil rights, the penal code and legal procedure.

Exclusive State legislative power is therefore fairly limited. However,

it can be exercised over some highly important questions such as those relating to agrarian legislation, property law, rulings on land-tenures and tax-collection, stock-breeding, forestry, education (except in certain spheres), property taxes, and taxes on income from property, and on rulings over credit and moneylending.

Thus, although they are limited, the State legislative powers can prevent action on a national scale over such fundamental questions as land rights, agricultural taxation and moneylending.

Experience has shown that most States are under far greater pressure from the landed proprietors and from capitalists specialized in moneylending than from the Central Government. Also, the clauses giving the States full powers in certain spheres have been used to the full by landed proprietors and capitalists so that all rapid and far-reaching agrarian reform has until now been prevented.

One might think that if State Governments wanted to use their exclusive powers to carry out reforms quickly and effectively, there could be no obstacle; this seems likely in theory. In practice, what happened in Kerala where there was a government with a communist majority from 1957 to 1959 shows that if the Federal Government cannot force recalcitrant States to legislate, it can on the other hand hold up important reforms for some time at least. This is so even when the Congress Party declares the intended reforms in its own electoral manifestos.

The problem of relations between the Central Government and the States has also a financial side which should be studied with particular attention. Apart from the importance of these questions in relation to India's political structure, the way in which the Constitution regulates them is of great importance to economic planning and development.

The Financial Relationship between the Central Government and the States

The financial relationship between the Central Government and the States is not limited to their respective powers in certain fields of the economy. The Constitution also stipulates that part of the taxes raised by the Central Government shall be paid back to the States and that, in addition, the Central Government can make over certain funds to the States. The conditions of payment are fixed by Parliament.

This would again suggest that the Central Government controls the policies of the States by means of its financial influence. Another point would seem to enforce such control; the States may borrow from the

Central Government, but no State can raise a public loan to pay its debt without the consent of the Central Government.

But the States are protected against excessive pressure from the Central Government. The Constitution also declares that from time to time the rules for the payment of tax returns and loans will be laid down in advance. The rules are based on the recommendation of a Finance Committee, whose five members are nominated by the President.

This financial system seems merely to have prevented any economic or financial initiative on the part of the States, without giving the Central Government an equivalent advantage. The States' financial means are fairly limited and they are not in a position to make the best use of their resources for economic expansion. A high proportion of their budgets consists of receipts from the Central Government, and there is no inducement to make a greater effort to raise their own funds. Sources which could play an important part in economic development—taxes on income from property and on the largest agricultural incomes—are entirely neglected. (6)

The State of Emergency

The Constitution provides that if the President believes that the security of India or of part of her territory is endangered by war, foreign aggression or internal strife, he may issue a proclamation to that effect. The proclamation must come before both Houses and expires after a period of two months if it has not been approved by a resolution passed in each of the two Houses. The proclamation can be made before an act of war or internal disorder takes place if the President is convinced that the danger is imminent. The proclamation's main effect is to make presidential decisions paramount in all States. At the same time, all legislation comes under the control of the Central Government.

Of lesser importance is the proclamation announcing the breakdown of a State. This measure can be taken by the President on hearing from a Governor that the State's government is no longer carried out in conformity with the rules of the Constitution. Its consequences may vary in extent. The powers of the State Legislature may be transferred to the Central Government. The situation created by a proclamation of breakdown cannot be prolonged for more than three years, even by vote of Parliament.

As can be seen, the above measures are principally intended to allow

it can be exercised over some highly important questions such as those relating to agrarian legislation, property law, rulings on land-tenures and tax-collection, stock-breeding, forestry, education (except in certain spheres), property taxes, and taxes on income from property, and on rulings over credit and moneylending.

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As can be seen, the above measures are principally intended to allow

the President to divest one or several States of their executive and legislative powers.

Modifications to the Constitution

The Constitution may be modified by means of a law adopted by a majority in each House and by at least two-thirds of the voters present. However, amendments concerning Presidential elections, the executive powers of the Union and of the States, the relations between the two powers, etc. must also be ratified by at least half of the State Legislatures.

Since the Constitution has been in force, a number of amendments have been adopted. The Sixth Amendment gives the Central Government the right to impose sales taxes. This measure increases the Central Government's financial powers at the cost of the States' powers.

The Seventh Amendment provides for a reorganization of the States in order to remove all traces of the original Princely States.

2. THE WHEELS OF POWER AND ADMINISTRATIVE PROBLEMS

The relations between State power and the people have two main aspects.

On the other hand, the State is an instrument of repression and of bureaucratic control which can exercise varying degrees of constraint in various ways. The nature and extent of these pressures depend upon the nature of the State and of the interests or privileges which it defends. The form which the pressure takes must depend on class tensions, the level of development of productive forces, the standard of education, and the social conscience of the different classes. It also depends on how the State bureaucracy is organized, how its employees are recruited or elected, how far they are kept under surveillance, etc.

The Indian Union has inherited a colonial type of administration which was essentially repressive and bureaucratic and which was naturally free from any decentralized democratic control.

When political power changed from British hands to Indian hands, the State organizations were not remodelled but simply transferred to the new government. What changes occurred were relatively minor reforms; the only exception being the institution of *panchayats*. Even in this case, there was a tendency to imitate traditional forms of self-government.

The Administrative Organization

At the summit of the colonial administration was a small group of highly competent civil servants. They normally had British university training[1] and were generally out of touch with the hopes and feelings of the people. This small corps (about 1,000 just before Independence) was at the head of an administrative organization which was certainly much larger than the I.C.S. but small in comparison with the territory it had to administer and the population it served.

Part of the administration was attached to the Central Government and part to the local and provincial authorities. Its standards of education and morality were generally low. Indifference, red tape, corruption, and scorn for public opinion were rife, and grew increasingly worse the lower one descended in the hierarchy.

The administrators were both policemen and tax-collectors, and this was all 80 per cent of the population saw of the State organization. The Indian Police Service (I.P.S.) was large, well-organized, and centralized.

At the time of Independence, the higher strata of the administration were disrupted by the loss of British civil servants and of Muslim civil servants who went to live in Pakistan. When these had gone, only 400 civil servants were left. The police service also lost some of its high officers, but the rest of the administration and the judicial organization remained more or less intact.

The Congress Government had foreseen the difficulties which might result from Independence and had taken remarkably good care to make sure there was a smooth changeover. The Indian big bourgeoisie was as eager to prevent any revolutionary stirrings as it was to maintain 'law and order'.

Scarcely one month after the temporary government had taken charge, S. V. Patel (Minister of Internal Affairs) had got the agreement of the State Governments to set up two new administrative services on a national scale: the Indian Administrative Service (I.A.S.) and a new organization of the Indian police service.

After partition and the integration of former Princely States, the I.A.S. and I.P.S. covered the whole of the Indian Union's territory. Recruitment was opened first to the administration and the police forces of the States, then to outside applicants. The I.C.S. employees

[1] Until the second world war, candidates for the Indian Civil Service (I.C.S.) spent one to two years at a university in Britain. During the war, the training centre was transferred to Dehra Dun in India.

kept their ranks and salaries (particularly high) but at the same time stopped recruiting.

Article 312 of the Constitution recognized the I.A.S. and the I.P.S. Article 316 provides for a Public Service Commission for the Central Government and similar organizations for the State Governments.

The members of these commissions are nominated by the executive power and remain in office until they retire, unless a serious charge is made against them by the Supreme Court. Most are chosen from within the administration.

These commissions propose the names of the new civil servants (above a certain grade) and make out promotion lists. They must also be consulted when rules for promotion and recruiting are to be laid down, and when a disciplinary matter arises concerning a government employee. The commission makes a yearly report to Parliament (or to the State Legislature in the case of State Commissions) and the government must explain its reasons to Parliament in a memorandum should it not follow the advice given by a commission on any particular question.

In fact, the administration, inherited from the British, protects civil servants from governmental abuse, but also tends to distinguish the executive, legislative, and judiciary powers from a more or less autonomous administration.

There are at present two central administrative services in India: the administration (entirely created since Independence) of foreign affairs, defence, customs, income tax, etc., and the administrations attached to each particular State (agriculture, education, health services, etc.). Finally, there is also the corps of civil servants or employees working for local authorities.

The administrative machine was renewed without being remodelled, thus retaining many of the colonial system's imperfections. New branches are being developed (the Community Projects and the National Extension Service, for example) and old ones are being enlarged, particularly in the field of education; but repression and taxation are still the main objects of the administration. The people are confronted with the same civil servants, the same policemen who treat them with the same scorn and brutality as under British rule. In many cases, the civil servants and policemen still get what profit they can from their positions.

The villages are particularly liable to suffer from the local civil servants (postmen, forest guards, revenue inspectors). Cases of abuse of power are obviously difficult to discover. They are seldom reported to

the higher authorities because the villagers are often too dependent on their local officers and too ignorant to make use of their rights in all but exceptional cases. The cases which have come to light are therefore all the more interesting. Here, as an example, are the observations of Alan R. Beals on a forest region in the state of Mysore. He quoted them at the World Student Service Seminar in Mysore in June 1953. These are some of the cases which the villagers described to him:

A villager who collects bamboo was caught in the forest by a guard. The guard demanded a 15 Rs. forfeit, and when the villager refused to pay, the guard threatened to beat him. The victim continued:

> 'Seeing that the guard was about to hit me, a man named Shiva came and asked him not to strike me. Then the guard got mad at Shiva. He quarrelled with him and accused him of breaking forest rules and regulations. Finally, the guard took 10 rupees from me and went to the neighbouring village. The next day, the guard came with the watchman and ordered the watchman to remove all wooden articles from the house of Shiva. The watchman brought them out. Then the guard said, "I am going to burn all these things." Shiva asked the guard not to do that and promised to give him as much money as he asked for. Finally, the guard agreed to take 50 rupees after threatening to prosecute Shiva in court.' (January 20 1953.)
>
> Another villager said: "We are afraid of the king, we think he may fine us heavily or imprison us; so we pay whatever the guard demands. . . ." (January 23 1953.)
>
> Yet another: "Just eight days before your visit, the revenue inspector took 70 rupees; that was the old inspector. Now the elders have agreed to give 35 rupees to the new revenue inspector. He wanted 50 rupees." (February 2 1953.)'[1]

These are only a few isolated cases, but anyone who has discussed these matters with Indian friends must realize that corruption is widespread and multiform.

The situation is by no means peculiar to India. It is typical of underdeveloped countries which have not completely changed their colonial administrative structures after Independence. The grafting of a modern structure with its repressive, centralized powers on a rural society with little market production and considerable ignorance of personal rights can easily lead to the worst abuses.

[1] Quoted in *R.C.S.*, vol. II, pp. 62–4.

In India, as in other countries, corruption and abuse of power are widespread, but they do not exist everywhere. There are, of course, many examples of honesty and devotion to duty in the ranks of the civil service.

Independence has brought no real change in the relations between the people and the administration. But the case is different where the richer classes are concerned; the administration which was formerly colonial is now 'theirs'.[1]

The structure of public spending and of outlay in administration at the beginning of the First Plan shows the true nature of the State's method of organization: there are larger credits for the machinery of repression than for education.

The Administrative Personnel and the Police Force

The following figures will give us a better idea of how the Indian administration worked at the beginning of the First Plan. Those working for the government (including the armed forces but excluding the education and health services) numbered about 500,000 (7), to which there should be added 800,000 employed by the States and 380,000 policemen—in all, 1,680,000 people, of whom nearly 23 per cent are policemen—and a large but unspecified percentage are in the armed forces.

The large number of police is not only the legacy of a *colonial administration*; it corresponds to a *colonial situation* characterized by a low standard of living, considerable exploitation of workers (both agricultural and urban) and of the poor peasantry, and a relatively large concentration of wealth in the hands of a small social group.

This situation causes two reactions: either individual reactions of a fairly simple nature (due to bad conditions, underemployment, etc.), which are evident in the high rate of crime; or, on the other hand, collective reactions of a political or trade union kind. The latter take the form of organizing and conducting propaganda in favour of agrarian reform, reduction of farm rent, wage increases and socialism; they are also expressed in collective action, for example political meetings, protest marches, strikes, etc.

The first of these reactions calls for a large police force to deal with

[1] This does not mean that the bourgeoisie escape the effects of corruption. At many stations, big businessmen and tradesmen who want their goods to leave and arrive on time have to pay under the counter at a fixed rate. There is even competition among railway employees for promotions to a station where the pickings are high. (See in particular *E.W.*, July 30, 1955, p. 896.)

the large number of crimes. There are no signs of any reduction in this activity. In 1948, 2,745,000 crimes were registered by the police and the number rose to 3,345,000 in 1955; the number of criminals to come before the courts rose from 3,675,000 to 4,750,000; the numbers of those detained in prison rose from 1,115,000 to nearly 1,400,000. (8) These figures seem very high when one considers that few village crimes are ever reported and that most do not therefore figure in the statistics. (9)

Political and trade union activities are not legally forbidden unless they cause public violence. But in fact various pretexts are used to clamp down on the leaders of trade union and workers' organizations. The laws of 'preventive detention', inherited from the colonial period, have not been repealed; they have even been reinforced (10), and are still used to the full. These laws, and the way they are applied, are obviously quite as important as the formal directives of the Constitution.

Public opinion is reacting more and more strongly to arbitrary arrests and police violence, and political repression is certainly diminishing but it has by no means disappeared. Every year, dozens of activists (mainly trade unionists) are arrested, on various pretexts which disguise the authorities' distaste for political or trade union action.

It is clear that the police force is used as an instrument of political repression. There is little precise information about the opening of letters and telephone tapping, but the police are known to use these methods.

To return to administrative personnel, those employed by municipalities, local authorities and villages numbered about 460,000 in 1951. This is a remarkably low figure in comparison with the large number of localities (more than 550,000), with the large population, and with the number of civil servants working for the State. It shows how much *centralization* there is and how small is the modern self-administrative organization. This small group is the nearest to the people and the easiest for them to control. Here again the influence of the colonial period is still at work, despite the Central Government's efforts to create village *panchayats*. We shall take up this point again later.

The Army and Politics

The professional army, like the police, has often been used by the government.

The names of Hyderabad and Kashmir come to mind. But the main question is not normally the use to which the army is put (however

decisive that may be) but to what extent the military leaders have independent powers. This question is all the more important as the governments of two neighbouring countries—Burma and Pakistan—were taken over by army leaders in 1958. The problem is whether the Indian army constitutes an independent political force or whether it is likely to do so.

Before answering this question, it will be useful to remind the reader that the present army (and in particular the higher ranks) has still much in common with the colonial army. Another important point is that there has been a growing tendency to subordinate the army to the civil power, at least in theory. But this does not mean that the army is incapable of forming a more or less independent political force.

Many observers hold that the high-ranking officers who went through British military schools, and who kept apart from the national movement for Independence,[1] are little interested in political affairs and would not be tempted to intervene at any time whatever.

The example of Pakistan—whose military leaders had the same background as the Indian officers—suggests that this view is entirely mistaken.

The real answer is probably that the army has never shown itself as an independent force because of the country's political stability and the absence of serious internal conflicts. The political opinions of the higher officers have never been tested by a crisis important enough to demand their intervention or 'arbitration'. This seems to explain the army's present position, but there is reason to believe that India might well suffer the fate of other similar young nations if the political or economic situation were to deteriorate.

The following observations add to the likelihood of the army's intervention if the circumstances were ripe:

1. The army is becoming more and more Indianized, not only because the British officers have left, but also because no officers are now trained abroad. They are being drawn to a greater extent from the middle classes, whose hopes and aspirations they share.

2. The army is expanding, as is shown by the budget. The credits fixed for the army have risen from 1·5 thousand million Rs. in 1948–9 to 3·1 thousand million in 1960–1 and to 7·5 thousand million in 1964–5. This means that the army now receives more than a third of the Central Government's current budget.

[1] The ranks of the army and navy were, however, openly favourable to the nationalist movement.

3. The army is in closer contact with popular feeling; a territorial army has been formed and is staffed by volunteers between the age of 18 and 35; a national cadet corps has also been set up.

Added to these three points is the possibility that the concentration of economic power and big capital's probable readiness to do away with the constraint of democratic liberty and parliamentary procedure may one day urge the big bourgeoisie to call for drastic action by the armed forces. This might happen if there were great international tension.

For the moment, this is only a possibility, but there is little to prevent the possibility becoming a reality. In fact, the army is what might be called the 'absolute political weapon' by reason of its unlimited scope for exercising repression and organized violence. It is also the State's strategic reserve, at hand when the other methods of a modern State no longer direct political action into the required channels.

Opposed to this sort of organization are the traditional institutions of self-government, which use persuasion and the pressure of public opinion rather than organized violence. These institutions still exist in India, and their influence is strong enough to act as a safeguard against the organisms of autocracy.

The Traditional Institutions of Justice and of Self-Government

We have remarked that some criminal cases escape the jurisdiction of the State; the same is true of certain administrative questions, which are settled outside the State system. There are material reasons for this: the modern State machinery is usually concentrated in urban districts. Most rural localities are therefore cut off from administrative channels at some or all times of the year. Roads connecting them with the nearest towns are either in a poor state of repair or even entirely lacking. The village—with its minimal market production and strictly graded society—is self-sufficient and therefore independent of the towns and the State. It can do without the modern State, which is seen as a predatory institution exacting legal tribute in the form of taxes and illegal tribute in the form of graft. The village's desire for independence is therefore reinforced, and the traditional structures are only changing very slowly with the gradual increase of exchanges between town and village and with better education. At present, the urban and constitutional organizations—whether administrative or repressive—have very little influence over 70 or 80 per cent of the population.

The traditional instruments of local government and of justice are the

caste *panchayats* (*v. supra* Ch. II) and various kinds of village councils. Although it may seem confusing to an outsider, there is another sort of *panchayat*, which we have already mentioned and which has been set up by the State; needless to say, the population has no difficulty in distinguishing between the two. We shall examine the government *panchayats* below.

The traditional caste *panchayat* may operate on three levels, these being a house *panchayat*, a village *panchayat*, and a regional *panchayat*.[1] (The size of the region varies considerably.)

A *panchayat* is theoretically an assembly of five persons ('*panc*'=five), but in fact there is no fixed number. (11) Tradition and custom give it administrative and judicial authority.

The surprising thing about these institutions is that they nearly always reach unanimous decisions. Their word therefore carries great weight and there is seldom the feeling of injustice which is caused by a decision imposed by majority vote. Nor do their punishments call for actual atonement (as is the case in a detention system) but more often for restitution of goods or compensation for the misdeed. In a particularly serious case, there are two possible punishments: the criminal may simply be banned from the *panchayat* and be unable to complain to it or defend himself before it; or worse, he may be outlawed—excluded from his caste—in which case no member of the caste will have anything to do with him. He can no longer participate in the caste's religious ceremonies, nor be buried according to the ritual, nor be served by the traditional servant castes. Punishment depends upon collective action and not upon a method of organized contrition.

The existence of these traditional institutions is sometimes the cause of legal conflicts. Some actions may be forbidden by the traditional system and permitted by the modern legal system, and *vice versa*; or an action may be forbidden by both. In the former case there will be a conflict between 'law' and 'custom'; in the latter, a question of competence to pass judgment.

The former situation is the more serious because the two systems are opposed.[2] The latter is less important; an act which is punishable according to both systems but in practice excused by the one or the other

[1] This is merely a formal description; the *panchayat* system is variable and three categories do not necessarily exist in all parts of the country.

[2] For example, the caste *panchayat* may punish a violation of the rules of caste discrimination, but the law forbids caste discrimination. Or again, customary rules of property inheritance may differ from the legal rules.

does not usually cause trouble, unless the customary punishment is itself a violation of the law (for example, when a murderer has only to pay a small sum of money in retribution.)

When there is a conflict between the two systems, the law is theoretically paramount; but it is often custom that prevails. This is hardly surprising in those cases where the law is not even informed of the crime. No member of a community is over-anxious to inform the law, because to do so would be an act of disloyalty to the traditional institutions. Besides, traditional justice is free of cost, flexible and often merciful, whereas legal justice is costly, uncompromising and severe.

Even when the authorities are notified of the crime, group solidarity can make judgement impossible. False witnesses may be introduced *ad infinitum*, and the opposed parties can be brought to help each other baffle the law. The case will eventually have to be abandoned, and the traditional institutions will be free to give their own decisions.[1] Such a situation obviously limits the law's efficacy and the State's control over its citizens.

However, the State and the Law have been steadily gaining ground on the traditional and customary institutions. There may be periods of stagnation or even regression, but there can be no doubt about the general direction. The process is related to the increasingly large participation of the villages in national affairs, but can be speeded up or retarded by the State's attitude towards the villages and by the sort of relations in force between town and country.

We have also to decide whether the traditional institutions can be used as legal instruments of administration and justice. Various steps have been taken to make use of them in this way, but in fact the traditional names mask new institutions.

The Modern Institutions of Local Government

The Central Government being unable to cope with the multiple problems of local affairs, it was necessary to install a system of local government once the period of consolidation was over. The first

[1] It should be added that the power of the traditional system varies according to the region and may vary within one region according to the proximity of and relations with the nearest town. It seems to be strongest in the South. It is also worth noting that where the British instituted federal landlords (*Zamindars* for instance) who had a strong hold on the villages under their control, the traditional systems are often extinct. In such regions—certain parts of Bihar being a good example—the transition to self-government should be easier.

organizations of this sort were set up in the towns and have recently been extended to the villages. We shall examine first of all the rural organizations, which are partly co-ordinated with the traditional institutions mentioned above.

The Village Panchayats[1]

Article 40 of the Constitution provides for the establishment of village *panchayats* as the framework of local self-government. These official *panchayats* are very different from the traditional *panchayats*, in theory at least. The official institutions have authority over all village affairs. They are community and not caste organizations following the spirit of the Constitution, which does not recognize caste divisions. This is a revolutionary idea which in itself is enough to make the official *panchayat* radically different from the caste *panchayat*.

It is not necessarily true that all castes have their part in the village *panchayat*'s activities; the 'lower' castes and the *Harijans* (who have a seat reserved for them according to the statutes) are sometimes left out. In 1958–9, a United Nations mission confirmed that this was so in their report on the Community Project Administration. Nor are women regular members of the *panchayat* assembly, although they too have a reserved seat in it.

The official *panchayat* is not set up in the traditional manner but by the votes of the village's adult population. This is another fundamental innovation which is different from the colonial administration's methods. A committee of village elders (also called the village *panchayat*) used to be nominated and a village chief chosen from the important personalities. The committee was given administrative and judicial powers by the central authorities and was therefore a copy of the traditional institution.

Each State had to pass a law putting the principles of Article 40 into effect, defining the rules of the *panchayat*'s composition, its powers, the members' term of office, etc., and taking into account the problems of each particular region.

The legislation relative to the *panchayat* was carried through during the First Five-Year Plan.

In 1950–1, there were 83,000 *panchayats*, and the number had increased to 117,600 in 1955–6 when all the villages in some States

[1] See Chapter VIII for an explanation of the *panchayats*' influence on rural development.

(Punjab, Uttar Pradesh, Mysore) were administrated by *panchayats*, certain of which had powers comprehending several villages. At the end of the Second Plan, there were about 200,000 village *panchayats*. The way is now open for an administrative and judicial unification of these institutions, which alone are legally responsible for managing communal village affairs, settling civil conflicts, and punishing petty crime.

Many questions still escape the authority of these new *panchayats* (where they exist). It is not easy for a new institution, with only the backing of the law, to oust the traditional institutions from their place in village affairs. The official *panchayats* have managed to impose their authority and take important steps in many cases, but in just as many cases their authority seems to have been negligible and subordinate to the age-old influence of the traditional institutions.

Factors other than the power of tradition are at the root of this situation.[1] The *panchayat* is not a truly democratic organization. Most of them are dominated by big landowners, moneylenders, merchants, etc. The economic power of these social groups assures them of most of the village votes, because the other social groups are not well organized and are at a disadvantage. The richest social groups also have contacts with the administration, as well as the advantages of being able to read and write and of being familiar with the law. These are the groups which stand to gain most from the *panchayat*'s activities, especially when there is a question of increasing land productivity (by irrigation and by sinking wells) or of improving marketing facilities (by road-construction, for instance). These social groups look after their own interests, which are often very different from the rest of the population's interests; the others become disgusted with the *panchayat* and escape its influence when they are not completely dominated by the wealth of the richest groups. It will take time and a number of social changes to convert the theoretical democracy of the *panchayat* system into a working democracy.

At the beginning of 1961, more than half the village *panchayats* and group *panchayats* in Rajasthan were still reported to be under the control of former *jagirdars*,[2] some of whom have joined the Congress Party, others belonging to right-wing parties and the Swatantra. It is

[1] There is an important point to be made here. Traditionally, no decision is thought valid unless it had been reached by unanimous agreement. But the official *panchayats* work by majority decision, which is liable to appear undemocratic, and their decisions are often simply ignored.

[2] Rich landowners (of Rajasthan in particular) with status equivalent to that of the *Zamindars*.

interesting to note that they have beaten the rich peasants (the *Jats*) at elections. The *Jats* once controlled a large number of *panchayats* but turned the peasants against them by the way they misused their power. It will be some time before one sees the peasants electing representatives of their own class.

We must add that it has been known for those who control a *panchayat* to surround themselves with their henchmen in order to gain complete control of the village.

Even where the *panchayats* have made their authority felt, they have only limited power outside judicial affairs because their means are limited. In particular, they lack money. Several States have attempted to overcome this difficulty by giving back to the village a certain percentage of the land tax which it pays.[1] The *panchayat* can also levy a tax in the form of work, but its resources are in actual fact very limited.

The consequences of this situation are all the more serious as the Second Plan declared that the *panchayats* should be the basic factor in social and economic development as well as a means of self-government. If funds are lacking, the development policy is itself compromised.

One point which has often been repeated, and which is on the whole true, is that the villages' main resources are the unemployed working forces which could be used for development. But it would be futile to try and use them without really studying the question.

The first necessity would be to make sure that workers really benefited from their own efforts, which is not at present the case in India. The usable working force consists of agricultural labourers and the poor peasantry, but the former do not benefit from land improvement, irrigation works, etc. because they own no land, and the latter benefit from such improvements to a very small extent. It is highly improbable that there are many workers who would be willing to answer the *panchayat*'s demands in the present circumstances.

The report on the Second Plan contains many such examples of wishful thinking.

For instance, it states that 'in recent years, each time the population has been appealed to—especially in country districts—they have responded enthusiastically. . . . The population has always made its contribution to the work with goodwill and enthusiasm, and local resources have been freely made available.'

[1] In the State of Bombay, 30 per cent is retained by the villages, in the Punjab 22 per cent to 33 per cent, in the State of Mysore 12 per cent, etc.

The true state of things is a little different. The Committee presided over by the Member of Parliament, G. P. Mehta, told another story. (12) It showed how previous reports on voluntary work had exaggerated the figures and how little voluntary help was forthcoming in communal work.[1] It also confirmed the theory that there are many voluntary helpers when the object of the work is to make improvements from which the whole village will benefit: sinking wells, building schools, or paving the streets, for instance.

Given the present social structure, the only effective way of using the unemployed rural working force is to pay them in money or in kind. Even in China (which is the obvious point of reference in this field) most of the development work carried out by the villages is remunerated either by the State (for large works) or more often by the co-operative or the commune, which give the same credit for development work as for ordinary employment. No country can depend entirely on goodwill and enthusiasm to get development work done, however desirable these qualities may be. But the *panchayats* need larger resources if they are to finance large-scale works.

The development of village *panchayats* was by no means a spontaneous process. It has been set in motion by the Community Project Administration, by the National Extension Service, and partly by the State administration. It is the first attempt in India to give the villages a democratic system of administration[2] which is on both a local and a national scale. Despite its present weaknesses,[3] the system is slowly taking its place in the life of the country.

There is also an attempt to form intermediary organizations linking the State and the villages; for example, district committees whose members are often elected by the village *panchayats*.

Urban Municipalities

Long before the first village *panchayats* were created, the colonial government had instituted local government in the largest towns. The

[1] This question is examined in Chapter VIII, p. 212.

[2] Some States have set up a special administration to look after the *panchayats*. One must add however that State intervention does not always favour the democratic spirit of the *panchayats*. It often gives civil servants control over the decisions of the *panchayats*. This seems to have happened in the State of Andhra.

[3] For example, the use of public funds in non-legal ways (see the report on the financial procedures of the Punjab *panchayats*, the essential of which is to be found in *The Statesman* of March 9, 1961. See also *E.W.*, February 4, 1961, pp. 137 *et seq.*)

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complex problems of organizing public services in a big town demand a large number of local government employees headed by people who understand the local problems. To provide this organization, the British authorities created a number of urban corporations. Their job was to solve local administrative problems, or rather to propose solutions which might or might not be adopted by the higher authority of the Central Government. As a general rule, the members of these corporations were nominated, not elected. This system was therefore very different from that of municipal franchise which was developed in Europe many centuries ago.

This system inherited by the Indian Union is being progressively changed to an electoral system and is also being extended and reinforced.

The municipal corporations' powers are being extended at a slow rate. The various States have to pass the necessary laws, and they are not always happy to concede power, especially to organizations which may be controlled by different political forces from those which control the State Governments themselves.

Nor are the theoretical powers attributed to the elected corporations always enforceable. The elected members come up against a pre-existing administration which will not readily accept new orders, especially if it is supported by the State administration. The situation of the elected corporation of Bombay in 1957 provides a striking example which is all the more interesting as the Bombay Corporation, together with that of Calcutta, is theoretically one of the most powerful in India.

In the summer of 1957, there was a large-scale strike in Bombay. The cause was that the main local union, the Municipal Mazdoor Union (supported by the Socialist Party, which also had a majority in the municipal corporation) could not get itself recognized in practice as the most representative union although it was recognized as such by the majority of the municipal council.

This apparently contradictory situation arose because the real administrative powers—for example, hiring and firing workers—were not held by the elected corporation but by the municipal commissioner. He, like other important municipal officers, is nominated by the State Government and not by the municipal corporation.

This is not an exceptional situation. It limits the importance of the municipal franchises which are being granted. But here again there has been a slow increase in the numbers of new institutions and in their

effective powers. These are further steps towards political democracy, especially as, in the towns, election to the municipal corporations (or similar bodies) is not just the formality of giving important personalities official power (as it is in the villages). There is a contest not only of 'personalities' but also of political parties. The latter and their place in Indian affairs will now be examined.

3. THE POLITICAL PARTIES (13)

India's political parties have for some time now been more or less those which are common to Western Europe. If we use this comparison for convenience sake, we shall class the Congress Party as a 'centre left-wing' party; further left are the Socialist and Communist parties; further right are the various Conservative parties and the political personalities elected for different reasons and termed 'independents' in the parliamentary assemblies.

The comparison, useful as it may be, is deceptive. It is useful because it is partly true from a social and an ideological point of view. In this respect, the Indian parties resemble their Western counterparts;[1] they are based on the same social classes and their programmes are much the same as in Western Europe.

On the other hand, the comparison hides what is peculiar to Indian political life. It is obvious that a country which is essentially rural and agricultural, where there are still many feudal or semi-feudal economic and social relationships, which is still partly dominated by foreign capital, will have a political system with very different aims and preoccupations from those of the industrial countries in Western Europe. The Indian political parties, whatever their ideas, must face the problems of State economic control and the agrarian problems against the background of an underdeveloped and formerly colonial country.

As for ideological questions, the social and political history of India gives a particular resonance to certain ideas and concepts. The 'Gandhian' ideology, for example, is specifically Indian, although even here it might be possible to find theoretical equivalents in other countries.

It is not possible for us to study in great detail the social basis and

[1] It is very tempting to compare the Indian parties with the French system; both are very different from the two- or three-party system characteristic of British and American politics.

programmes of each political party; our study is of too general a nature. We shall be forced to give a brief summary of these questions, and this will inevitably demand some over-simplification. We shall, however, be in a position to understand the political forces that exist, how they act, and how they have developed. (14)

The Congress Party

Both before and after Independence, the Congress Party (or, more precisely, the Indian National Congress) was the main force on the political scene.

As we have already remarked, the Congress Party's actions have for decades been linked with the national movement for independence. The Congress Party has also carried with it the classes which stood to lose from continued British control—from the peasant masses to the big bourgeoisie. Most of the other political parties were moving in the same direction, although their ideas on how to act and what to expect may have been very different from the Congress Party's intentions. The result was that the Congress Party became the leading group in a coalition which aimed at independence.[1]

The Congress Party's central position gave it considerable power. It united the two forces of the Indian bourgeoisie—moderates and 'extremists'—who worked together in this one party after the Congress of Lucknow in 1916. United in the struggle for Independence, the Indian bourgeoisie took the lead in nationalist politics, thus commanding both the working classes and the peasantry who joined the nationalist movement.

The bourgeoisie's unity and consequent command over the nationalist movement was not a spontaneous development. It was the result of Gandhi's policies, executed with his own supreme political intelligence. His politics apparently veered between the moderate and the extremist, but were in fact of neither brand, as his hunger strikes show.

In following Gandhi's leadership, the Congress Party benefited from his political intelligence, devotion to the nationalist cause, and understanding of the people. The country saw itself reflected in this great leader (15), and supported the Congress Party when it most needed

[1] Congress being a movement and not a party, its members could at this time function in Congress and in a political party. This was no longer possible after Independence. See Myron Weiner, *Party Politics in India*, Princeton University Press, 1957, p. 16.

support. The Congress in the years before Independence was therefore more of a cause than a political party, which explains its huge following.

Although the Congress became a party after Independence, it was still entirely different from an ordinary party uniting members who believe in the same ideals and have the same objectives.[1] Not that it lacks a programme; it demands agrarian reform, enlargement of the public industrial sector and economic planning, and in recent years has declared its end to be an ill-defined 'socialism'.

This has given rise to a misunderstanding. Many commentators have seen the Congress Party as a Socialist or Progressive Party of an Indian kind. This conception is unjustified if the party's actions (not just its declarations) and its social following are taken into consideration. Who really support the party and who benefit most from its being in power? There can be no doubt that the Congress Party, in the years following Independence, was the party of the Indian bourgeoisie—although it also enjoyed popular support by virtue of its nationalist past.

In Part Two we shall illustrate this judgement by analysing what the Congress Party has done since it has been in power. Here we shall merely add that the large funds which the Congress Party attracts come from fairly high subscriptions (too high for workers or the poor and middle peasantry to pay) and also from subsidies given by the Indian capitalists, Birla and Tata in particular. These subsidies even appear on the balance-sheets of the big companies; the Tata Electric Group's balance-sheet for 1957–8 shows a contribution of 300,000 Rs. to the Congress Party's funds.

The Congress Party's need of financial support from the bourgeoisie explains why the capitalists have never taken fright at its most 'leftist' declarations. In 1956, the great industrialist Birla even went so far as to declare that he was in agreement with the Congress Party's 'socialist' ideas; the Federation of Indian Chambers of Commerce followed his lead. The press controlled by big capital also supports the Congress Party, even though it may disagree with some details of the party's policies.

It would be untrue to say that the Congress Party's policies are a question of simple electioneering. Whatever may have been said above,

[1] When Congress became India's main political party, Gandhi thought that it should be dissolved and become a non-political organization—the *Lok Sahayak Sangh*—with the object of 'serving the people'. (*v.* D. G. Tendulkar's book, *Mahatma*, vol. III, p. 342.) The Congress leaders closest to Gandhi refused to do this. Only Acharya Vinoba Bhave followed Gandhi's ideas and created the *Bhoodan* movement. He was Gandhi's only true disciple in this matter.

a part of its programme—notably on public sector development—is an objective necessity for Indian capitalism, which can only progress by means of State capitalism. The Indian bourgeoisie is one of the subtlest and most intelligent in the world where politics are concerned; its strength being that it has no fear of words, and is quite willing to support 'socialist' policies if they are to its advantage. Socialism has great prestige in India.

Finally, it may be useful to remind the reader that nearly all the Indian parties claimed to be socialist at the 1957 elections. A Congress Party handbook on the election says ironically that an advanced political and economic programme leading to socialism was proclaimed as their own by the most reactionary parties in the country.[1]

The Congress Party's programme is large enough and vague enough to satisfy the most contradictory interests within the party itself, provided that these interests are content with mild reforms of the country's economic and social structure and do not try to make radical changes. From this point of view, the Congress Party, like the two big American parties, is above all a 'political machine' used by the interests which accept the economic and political *status quo*.

In fact, the differing interests are not represented in the Congress Party by ideologies but by personalities. When a conflict arises, it is usually one of personal interests.

It would be interesting to analyse the spontaneous division of labour among these personalities in the Congress Party. The party has always been led by men with a large popular following (Gandhi first and then Nehru), but next to them there have always been more down-to-earth personalities in contact with the 'big interests'. It is the latter who make the practical decisions which have the most important consequences, and it is they who risk unpopularity. The respective positions of Pandit Nehru and Sardar Patel just after Independence and of Pandit Nehru and Morarji Desai a little later illustrate this division of labour.

A mechanism of this kind frustrates those who try to put some of their ideals into action (Pandit Nehru, for example). However hard they try, and even if they obtain unanimous votes in the Congress, they are eventually baulked. The continued existence of this mechanism testifies to the intelligence of the Indian bourgeoisie, and to the lack of a true ideological and political separation between men like Pandit Nehru and the more conservative elements of the Congress Party. If this were not so, there would certainly have been a split.

[1] Cf. Ali Sadig, *The General Elections, 1957*, New Delhi, p. 50.

Lack of a true political structure within the Congress Party results in innumerable compromises which often prevent any positive action. It also means that the governments set up by the Congress Party in the various States follow widely differing policies (which may even differ from the Central Government's policies) without being called to order by the A.I.C.C.

The development of such a political machine has not been due to historical factors alone (that is, to the demands of a battle for independence). Another reason is that classes other than the bourgeoisie have had little part in political organizations until recently. Consequently, the various strata of the bourgeoisie have been able to settle their own problems without breaking out of the one party.

This situation showed signs of changing in the years following Independence. The other social classes took a growing interest in politics; the bourgeoisie was increasingly troubled with internal conflicts; new political groups were formed, and the Congress Party was slowly losing its position as the 'one party' of the Indian bourgeoisie.

In 1951–2, the first elections after Independence took place; they were also the first elections in which the whole adult population, both male and female, had the right to vote. The Congress Party's success showed that its prestige and political importance were still great, even though they had declined since Independence. We shall examine the main parties and their performance at these elections in Chapter XIII.

The Left-wing Opposition

At the first general election, there were a number of parties which could be called (in European terms) social-democrats. The term should be understood in a very general sense; they are political parties which proclaim socialist ideals but reject any revolutionary action in favour of progressive reform. They are different in some respects from their European counterparts, especially in that their ideology includes some of Gandhi's principles. On the whole, their programmes are not much more radical than those of the Congress Party, but they attack the Congress Party from the left, condemning its attitude towards and commitment to big capital.

Apart from a few exceptions (most of which were to be seen in Bombay and in West Bengal after the first general elections) the socialist organizations are violently anti-communist. In the sphere of international politics, they are less neutralist than the Congress Party, more

openly pro-Western, and especially pro-American. Their support lies mainly among the middle classes but they have some working-class support, in particular through the H.M.S., which, incidentally, is weaker in numbers than the other big trade union organizations.

One interesting point about the Indian socialists is that they are against State control. This is to be seen, first in their decentralization programmes (which are in the same spirit as Gandhi's idea that the village should be the cardinal factor in social, economic and political organization), and secondly, in the development of agricultural sales co-operatives. They also claim to defend the middle classes against the big capitalist enterprises and against the expansion of State-owned enterprises.

The two main socialist parties which presented candidates at the 1951–2 general elections are the S.P.I. (Socialist Party of India) and the K.M.P.P. (Kisan Mazdoor Praja Party).

The S.P.I. was created in 1934 within the Congress Party. After Independence, and after Gandhi's assassination, and 'when it was quite evident that the Congress was determined to pursue a *status quo* policy',[1] its leaders decided on a split and, in 1948, formed a Socialist Party separate from and opposed to the Congress Party.

The K.M.P.P. is of more recent origin. It was created in June 1951, and its leaders were also formerly of the Congress Party, in which some held high positions. (16)

In the 1951–2 elections, the C.P.I. (Communist Party of India) obtained far fewer votes than the two socialist parties, but as it sustained fewer losses than they did, it had more seats in Parliament.

The Indian Communist Party's plan for the immediate future (published in 1951) is strongly opposed to the Congress Party's policies. It condemns the Congress for keeping India in the Commonwealth, for not having confiscated British capital, and for begging 'the Britishers and the Americans to invest more capital while promising them that they would be able to recall their profits'.

Where home politics are concerned, the C.P.I. denounces the anti-worker and anti-peasant repression practised by the Congress government as well as the support given to capitalists and landowners.

In the field of international politics, the C.P.I. blames the Congress Government for being on the side of the 'Anglo-American imperialists

[1] This is how the S.P.I. justified its break with the Congress Party. The Secretary General of the S.P.I. in 1951 was Asoka Mehta (born in 1911); he had also been the Secretary General of the H.M.S.

on most issues in the U.N.O., including the sanctioning of American aggression in Korea'.

It proposed a government of people's democracy[1] which would break with the Commonwealth, increase democratic liberty, nationalize foreign capital's possessions, pass social legislation on wages, public health and education, expropriate the landowners, give the land to the tillers, and initiate a policy of rapid economic development.

On this programme (supported by mass actions led by the Communist Party) it obtained five and a half million votes at the first General Elections and more than 6,200,000 votes at the Legislative Assembly elections.

The C.P.I.'s 1951 programme contained many inconsistencies. It was the result of a compromise among the various currents of thought within the party. In the following years there was an attempt to clarify the party's positions (which sometimes gave the impression of internal uncertainty) on the structure of India's bourgeoisie and on its national and international rôle, on the Congress Party's home and foreign policies, and on methods of opposing the Congress Party. There is still no party line followed by all members of the C.P.I., which is hardly surprising when one considers how complex are India's political and social problems. The various theories are exposed in the party's publication *Forum*, available to party members only.

The total number of votes obtained by the Communist and Socialist parties (22·8 million) was less than the total number of votes for the left-wing opposition (28 million in all). Apart from the above-mentioned parties, the left wing also included a number of smaller parties, some nearer the C.P.I., others nearer the socialist groups.

The large number of parties and groups is a characteristic of the Indian political scene. It is partly explained by the country's complex social structure. (We have already seen that there are social groups attached to a feudal system of rural economy, others to a pre-capitalist system, others again to a completely developed capitalist system.) It can also be explained by the very size of India, by systems which vary from region to region as local history dictates.

[1] 'The government of people's democracy will be a government of all democratic parties, groups and individuals representing workers, peasants, middle classes and the national bourgeoisie, the bourgeoisie that stands for genuine industrialization of the country and for the freedom and independence of India.' (C.P.I. *Manifesto*.)

The Right-Wing Opposition

The right-wing opposition contains an even larger number of political groups than does the left wing. The reason is that there is more competition between personalities than between real political bodies. These personalities are rich enough to devote a good deal of their time to politics and to pay for their own election campaigns.

But there are other reasons for the large number of right-wing parties. If we care to make a closer analysis, the following can be detected:

1. Many of the movements differ in their social followings and objectives. Some are 'reactionary' movements defending the interests of the big landowners and feudal landlords; others are simply 'conservative', opposed in fact (if not always in theory) to the economic changes caused by the Congress Party's actions.

2. Some of the movements try to use the manifold local and regional problems to their own advantage.

3. Likewise, some play on the feelings common to certain sections of the population: caste prejudices, religious ideas, etc. These are 'communalist' movements.

4. Finally—and this is the major factor—the feudal interests are too badly thought of and too weak to present a unified front. Also, all bourgeois interests are represented in the Congress Party; in 1951–2, the bourgeoisie's united struggle for Independence was still too close to permit any real political distinction of opinions. There were certainly individual reactions against the Congress Party, but the situation was not yet ripe for the formation of another large party opposed to the Congress.

These brief and necessarily over-simplied observations lead us to class the various right-wing tendencies in two large groups: first, the communalists or feudal groups presenting candidates at the 1951–2 elections; second, the bourgeois group which had broken away from the Congress Party for various reasons.

At the parliamentary elections, parties and candidates other than the Congress and left-wing parties gained 33 million votes, which was 70 per cent of the total obtained by the Congress Party itself. But as the votes were distributed among a large number of candidates, the right wing only won 75 seats in the *Lok Sabha*, against the Congress's 375 and the left-wing opposition's 49. Ten million of the thirty-three million votes went to reactionary, communalist, and feudal parties, and about

twenty million to Independent candidates of various types.[1] Since the former parties are both numerous (more than a dozen) and of little political weight, we shall not got into the details of their programmes (which are often rather different from their actual objectives). We shall say a few words about the most important of them.

The leading party in this category is the *Jan Sangh*, with more than 3 million votes (3·5 million votes for the Legislative Parliament). Its political power should not be underestimated; it was placed fifth of all the parties in the 1951–2 elections. The *Jan Sangh* emphasizes India's rich past in opposition to Western culture and ideas. and considers that the village should be the hub of Indian life. It is violently opposed to Pakistan, demanding large increases in the military effort. Its agrarian policy is very vague. It looks mainly to the middle classes for its support.

The party obtaining the second highest number of votes was the R.R.P. (*Ram Rajya Parishad*) with nearly 2,100,000 votes in the 1951–2 elections. This party bases its philosophy on the teachings of the *Vedas*. It is against all social and economic legislation in the name of 'freedom of property' and on the principle that economic inequalities can only be eliminated by changing the people's ideas. This party openly defends the rights of rajas, *Zamindars*, and *Jagirdars*; it is militarist, and against modern education. Many feudal landowners ran for the elections, but only three obtained seats in Parliament.

Another organization of the same type—with more than a million votes and four seats in Parliament—is the *Hindu Mahasabha*.[2] It also draws its theories from the scriptures. It played a violent part in the bloody fighting between Hindus and Muslims at the time of Partition. It also seeks to protect big landed property against agrarian reform.

The feudal landowners who did not run in the name of the above parties did so on behalf of the Congress Party[3] or as independents.[4]

[1] Many of these independent candidates were former local rulers, feudal landlords, or big landowners.

[2] This is a much older party than the *Jan Sangh* (it was formed in 1907). Its main period of growth was in the years after 1925. The *Jan Sangh* was formed in 1951, its leaders being drawn from the *Hindu Mahasabha*. (See: *Party Politics in India, op. cit.* pp. 164–222.)

[3] At least eight former rulers were elected on Congress Party platforms. (*India at a Glance*, p. 170.)

[4] Ten former rulers were elected to the Legislative Assemblies in 1951–2 as Independents. (*Ibid.*)

This shows that not all the independent candidates represented bourgeois political ideas little different from the Congress Party's policies, although this is often the case in heavily urbanized areas. Candidates in such areas, many of whom have left the Congress Party at one time or another, would be those who might eventually join to form a second large bourgeois party to the right of the Congress. In Part Two, we shall see how this situation is developing.

To return to the political situation at the time following Independence, two points must be made. In the first place, the masses were ignorant of or indifferent to political affairs, as is shown by the large number of abstentions in some States; in the second place, there was a fairly powerful opposition to the Congress Party. But since this opposition was not united, the Congress triumphed at the elections. It remained in power after the 1951–2 elections, and later won both the 1957 and the 1962 elections.

From 1947 until today, the Congress Party has been able to put through its main social and economic plans. It has been helped to do so by the left-wing parties, whose main complaint has been the Congress Party's tardiness in making the reforms of which the left approves.

Thus the results obtained since Independence depend, first, on the Congress Party's initiative and, secondly, on the social and economic structure which the Congress has decided to maintain, or to modify to a very small extent.

ANNEX

LANGUAGE PROBLEMS

Language problems have always been an important factor in Indian politics. It is often thought that there are 'hundreds of languages' in India, which would make the problem very complex indeed. The idea originates in the 1921 Census, which named 222 languages; the figure is repeated in the Simon Report, which speaks of the difficulties facing the government of a country where the future of races speaking 222 languages has to be worked out. The figure results from a confusion between language and dialect; it also shows that no distinction has been made between languages spoken by small groups and those which belong to the whole civilization of India.

According to the 1951 Census, nearly 92 per cent of the population

spoke one of the fourteen languages mentioned in the Constitution;[1] 3·2 per cent spoke one of the 23 main tribal languages, and about 5 per cent used other languages or dialects.

In fact some of the languages—for example, Hindi, Urdu, Punjabi and Hindustani (this last one not mentioned in the Constitution)—are closely related and differ mainly in their characters and the number of Persian terms they contain. These languages are quite easily understood by those speaking Bengali, Gujarati, Marathi, and Assamese (and *vice versa*). These languages and Oriya are of Sanskrit origin and are Indo-Germanic. The three other important languages belong to the Dravidian family and are spoken by about 18 per cent of the population.

The number of languages spoken in India nevertheless causes considerable political problems. One difficulty was that *linguistic frontiers did not coincide with State boundaries*. As we mentioned above, the 1956 reforms aimed at settling this question. But there still exist States in which several languages are spoken.

When the reforms were being discussed, there was considerable controversy and, at times, actual violence (in Bombay, for example). This shows that *community feeling based on a common language runs high*;[2] also that it is worthwhile trying to base political and administrative areas on linguistic divisions, for that is what the people want.

The Bombay incidents lowered the Congress Party's prestige in the State of Bombay and in the whole country. The 1957 elections show that a large section of the State of Bombay's population turned against the Congress Party.

In West Bengal (at the other end of the country), the original project for reorganizing the States caused some resentment because of the land West Bengal would have lost to Bihar. The Government's attitude provoked large protest meetings and, in particular, a strike which paralysed Calcutta. After many abortive attempts—there was even a project to fuse Bihar and Bengal, rejected by public opinion in both the States—a compromise was reached. But it came a little late, for the Congress Party's prestige had already suffered a severe loss.

Another problem is the need for a common language, or for several common languages, so that there would be a possibility of understanding

[1] Annex VIII to the Constitution defines the important Indian languages as Assamese, Bengali, Gujarati, Hindi, Kannada, Kashmir, Malayalam, Marathi, Oriya, Punjabi, Sanskrit, Tamil, Telegu and Urdu.

[2] The feeling even penetrates caste barriers.

the Central Government's official acts, the relations between the States, the central courts' decisions, the army's declarations, etc.

The Indian Constitution gave an answer to the problem by making Hindi (the most widely spoken language) the official language of the Union, the one which is officially used in Parliament and which should be used for inter-State affairs. But Hindi is not known widely enough among the highly placed members of the administration, nor even in governmental and parliamentary circles. The result is that the official language of British India, English, has been maintained as an authorized language for a period of fifteen years.

NOTES TO CHAPTER VI

(1) This annex originally contained four lists (A, B, C and D). List A contained the main provinces belonging to British India and now part of the Indian Union: Andhra, Assam, Bihar, Bombay, Madhya Pradesh, Madras, Orissa, Punjab, Uttar Pradesh, West Bengal.

At the head of each State in list A is a Governor whose normal term of office is five years.

The most important of the former Princely States (to be found in list B of the first annex to the Constitution, the main ones being Hyderabad, Jammu, and Kashmir, Mysore, Rajasthan, and Travancore-Cochin) work on the same lines as the States of list A except that the Governorship is assumed by a *Rajpramukh*, who is the former ruler of the State.

The States in list C are of minor importance or else, like Delhi, come under the direct control of a central authority. These States are administered by a Chief Commissioner or by a Lieutenant-General nominated by the President or by the Governor of a neighbouring State. The members of these States' Legislatures are either nominated or elected.

The list D contains all other States and territories. They are administered by a Chief Commissioner nominated by the President, who also controls their legislations. The principal territories coming under this special system are the Andaman and Nicobar Islands, which have tribal populations. Certain territories of the States included in lists A and B, which also have tribal populations, and certain tribes are also placed under a special régime. The aim is to protect socially and economically backward groups (some of which still live by very rudimentary means) against their less backward neighbours who might try to encroach upon their traditional lands or exploit their labour.

(2) See the *Report of the State Reorganization Commission*, G. of I. P., New Delhi, 1955.

(3) All the former Princely States have disappeared from the map with the exception of Rajasthan and Mysore. They have been split up amongst other States or absorbed by larger ones. Thus, the Punjab has taken in Patiala and the Union of States of East Punjab, and the State of Ajmer has been incorporated into Rajasthan.

The most important change has been the disappearance of the former Princely State of Hyderabad. Its ruler, the Nizam of Hyderabad, a Muslim, was extremely powerful. He was considered to be one of the richest men in the world, and no doubt still is, for a large part of his fortune was in safe hands outside India. The Mahratta-speaking territories of the former State of Hyderabad were transferred to the State of Bombay, which was itself split in 1960 into a Mahratta State and a Gujarat State. The Kannada-speaking territories were transferred to the State of Mysore, which was also given the lands in the State of Bombay and in the State of Madras speaking this language. The former State of Coorg has also been absorbed by Mysore. The North-Eastern territories of Hyderabad, speaking Telegu, were incorporated in the new State of Andhra Pradesh.

To the south-west, the former State of Travancore-Cochin has disappeared. Its lands now belong to the State of Kerala, where the main language is Malayalam. The former district of Malabar and some of the territories belonging to the State of Madras have also been included in Kerala.

The State of Madras has absorbed five Tamil-speaking regions which were part of Travancore-Cochin.

(4) Language problems are treated in an annex to this chapter.

(5) These are called 'Union territories'. They include the lands of Delhi, the Himachal Pradesh, the Andaman and Nicobar Islands, etc.

(6) The following passage from the Finance Commission's report is of interest on the question of the States' financial activities:

> 'Our scrutiny of the States' forecasts disclosed that not only were the contributions from existing revenues, which were assumed for financing the plan [i.e. the Second Plan], not available, but that also, in some States, the committed expenditure would absorb part of the resources which they were expected to raise for the plan through additional taxation.' (*Report of the Finance Commission*, p. 12.)

(7) See the *Statistical Abstract, India 1953–4*, p. 43.

(8) See the *Statistical Abstract, India 1957–8*, pp. 140 and 185.

(9) We shall return to this point later when considering traditional self-government.

(10) For example the Bombay Public Security Act gave the police authority to arrest without a warrant any person acting in a manner prejudicial to public security, to public order or to the peace of the province. This law was not only maintained but strengthened in 1948 when the above text was amended to any person *liable to act*. . . . etc.

(11) A *panchayat* may even be reduced to one member (*v.* L. Dumont, *Une Sous-caste de l'Inde du Sud*, p. 288).

(12) See the *Report of the Team for the Study of Community Projects and the National Extension Service*, the Planning Commission, New Delhi, 1957, Col. 1, 2, 3 (Parts I and II).

(13) This information comes from various sources, mainly from weekly and daily newspapers and from different Party Publications. The main dailies consulted were: *The Amrita Bazar Patrika* (Calcutta), *The Statesman* (Calcutta), *The Times of India* (Bombay and Delhi), *The Hindu* (Madras); the main weeklies: *Thought*, *Shankar's Weekly*, *Vigil*, *Maral*, *The Economic Weekly*, *New Age*; the main monthlies: *The Economic Review*, *The Modern Review*, *New Age*.

(14) This will be studied in Chapter XIII.

(15) A remarkable analysis of Gandhi's political career and of the ideological opposition to his ideas is to be found in E. M. S. Namboodiripad's book, *The Mahatma and the Ism*, New Delhi, 1958.

(16) The main K.M.P.P. leader is Acharya J. B. Kripalani (born in 1888), former General Secretary of Congress from 1934 to 1946 and President of Congress in 1946.

PART TWO

TOWARDS A NEW INDIA

SINCE Independence, the economic, political and social forces active in India have slowly been changing the face of the country. The rate of change varies according to the sector and region concerned, which explains why there are contradictory opinions about India's development.

Some commentators hold that nothing is changing, or that when there are changes, they are only superficial. Others detect rapid progress—some of them even call it a 'revolution'—which is building a modern India very different from the traditional one.

Those who study rural conditions or family ties in the country, or the peasants' attitude towards life and death, find that what was said twenty or fifty years ago is still true. Nor is there any apparent change in the standard of living in urban or rural districts. Research workers find that conditions are no better and no worse than before Independence; some social groups' standards of living have gone up slightly, but elsewhere they have gone down. There seems to be little overall change.

No one could expect a large-scale expansion in the space of a few years. But it is surprising that when changes have taken place, there is very little to see for them. India as a whole is not developing rapidly, and there is definitely no economic and social revolution in progress which might alter or revolutionize the old ways of life and the attitudes and prejudices of traditional India.

Nevertheless there have been quick changes in some fields: in industrial production, for example, in the utilization of the National Income, in political attitudes, in urban development, and even in certain aspects of the agrarian problems. The importance of some changes over the last few years may even lead us to judge that if the more static sectors of Indian life do not change correspondingly, there will be a major crisis.

It is difficult to say exactly how and when this crisis will arise, or what its outcome will be. It might halt development momentarily or it might provoke immediate and far-reaching changes in the backward sectors.

Given the world situation today, the second hypothesis seems the more probable.

It would be difficult to deny that where there is change, it has been provoked by government action, by the State's direct intervention in the country's social and economic affairs. State capitalism has taken effect in a number of different ways, but above all by means of the Five-Year Plans and the efforts to put them into action. Other changes just as important are due to the spontaneous pressure of social and economic forces which are not directly controlled but act in spheres where State intervention is considerable. These changes react in their turn on the scale and nature of governmental initiative. The strengthening hold of Indian big capital on the country's economic affairs, development in some branches of industry, and the bigger political and trade union organizations are factors of this sort. To sum up, there are interrelationships in changes and movements in many spheres, some of which are spontaneous and some conditioned. We have before us a society which is far from static in many sectors, a society helped forward by government action, even when the results are not foreseen by the authors.

In the following pages, we shall try to illustrate these comments. First, we shall examine the Indian Five-Year Plans and see how they represent one aspect of India's developing State capitalism. Then we shall analyse the main changes since Independence in the economic, social and political affairs of some important sectors.

VII

THE MOVE TOWARDS STATE CAPITALISM AND THE FIVE YEAR PLANS

LONG before Independence, the Indian big bourgeoisie already favoured some kind of State capitalism. As we have seen, the big financial groups, Birla and Tata, worked in collaboration with the National Planning Committee. (1) The same financial groups confirmed their position by helping to work out the Bombay Plan. (2)

For the most active elements of the big bourgeoisie, State capitalism was the only answer if India was to shake off foreign capital's hold on the economy and to speed up development while increasing profits. It should also be said that once these goals are approached, the big bourgeoisie demands a reduction of the State's economic action. We shall not overlook this point in our analysis.

The rest of the bourgeoisie was also in favour of some kind of State capitalism because it offered quicker industrialization. This meant new economic opportunities for the bourgeoisie, whereas an unambitious economic policy would have meant stagnation. But the bourgeoisie was not always happy about the way in which State capitalism was acting.

There have been changes in the bourgeoisie's attitude during the last few years, although they are not yet pronounced. Those who benefited from State capitalism were mainly the big capitalists; those who paid for it, partly at least, were the lower strata of the bourgeoisie, whose attitude therefore became more critical. But, on the whole, one can say that almost all the population has supported State capitalism in recent years, even if criticism has not been lacking.

State capitalism was supported after Independence since governmental intervention was necessary to make sure of the country's economic independence and an economic expansion which everyone wanted.

State capitalism in India takes many forms. It includes economic regulations as well as the creation of a large new public sector, and takes in the creation of various State organizations designed to give financial aid to private enterprises.

Economic regulations covered a large number of points: price-fixing, wage control, supervision of foreign trade and exchange, rationing of some important but scarce products, legislation on the formation of new companies and on financial market issues, etc. Some of this legislation concerned laws already enacted during the second world war, but needing revision; the rest was new legislation.

We shall not give a detailed list of the laws and decisions. But it must be emphasized that part of them had very little practical effect because of the weak administration, the prevalence of fraud, and the fact that powerful interests managed to get some decisions modified. The control of currency exchange at the beginning of the Second Plan is a typical example of bad management. Because of this, currency reserves on which the public sector had priority demands were actually used by the private sector for importing goods of minor importance to the national economy.

Despite their weak points, these measures had to be taken by the government if a progressive policy of economic development was to be maintained. But the main factor of the government's policy was the increase of State spending in a public sector which had become relatively large.

In the following pages we shall analyse the major aspects of the expansion. It was mainly achieved by means of the Five-Year Plans.

I. THE INDIAN FIVE-YEAR PLANS AND ECONOMIC THEORIES

Before we examine the Five-Year Plans, it must be said that neither the politicians who decided to try them out nor the civil servants and technicians who prepared them had any definite theories in mind. The Indian Plans are above all empirical; they are intended to provide the answer to some urgent problems and to satisfy a certain hope and need. To be more precise, when the Plans were defined from theoretical points of view, there was no agreement upon economic principles. Some referred to Marxism and the Russian system, others to Keynes or Pigou,[1] yet others to concepts of social reform.[2]

The existence of different theoretical positions means that the Indian

[1] The authors of the *Bombay Plan*, for example.

[2] Nehru refers to such concepts in *The Discovery of India* when he uses the expression 'democratically planned collectivism', adding that this means, not the abolition of private property, but that the property of the basic industries must be public.

Plans (and other methods of State capitalism) are the result of necessity and group pressure (3), but not of a systematically applied theory. Some of the social groups use political theories as a useful way of defending their interests; others may not clearly realize what their groups' interests are, but naturally hold to the theories which serve them best.

We shall not waste time looking for the theoretical origins of the Plans. In any case, ideological discussions have given way to arguments on practical and technical questions since the First Plan took effect.

We shall now examine the main characteristics of the Indian Five-Year Plans and the conditions prevalent when they were prepared.

2. THE MAIN CHARACTERISTICS OF THE INDIAN PLANS

For the moment, we are mainly concerned with eliminating any possibility of false interpretation. The reader will be able to see for himself the characteristics of the Plans when we study them in detail.

Their main characteristic is that they state what is anticipated or expected. They are entirely different from socialist plans, which lay down imperative and compulsory conditions. The latter sort of plan, once adopted, has to be implemented by administrations and enterprises, whereas the Indian Plans attempt to define as precisely as possible the government's agricultural, economic and industrial policies for the following five years. The government and its administration naturally want to fulfil as much of the Plan as possible, but they may adopt measures very different from those suggested by the original Plan without violating any legal obligations.

The fundamental cause of this situation is the capitalist nature of India's economy which gives a lot of initiative to private capital. Few restraints are used. Nothing is made absolute or compulsory, although certain prohibitive measures may be taken. The Plan is more imperative in the public sector, but even here nothing is strictly compulsory because the public sector has to adjust its policies to the decisions of the stronger private sector.

There is therefore no planning in the true sense, as there can be none in any capitalist economy if the term is taken to understand not only the preparations of plans but their compulsory execution. However, the word 'planning' has been used in recent years for both compulsory and anticipatory plans; but the two should be carefully distinguished.

Another characteristic of the Indian Plans, and of the Second Plan in particular, is that they are global, i.e. the plans cover all the sectors of the economy. These are national economic plans.

3. HOW THE PLANS ARE PREPARED

In March 1950, two years and seven months after Independence, the Indian government decided to set up a Planning Commission. Its president is the Prime Minister and the planning organization is headed by a Secretary.

The Planning Commission's first task was to work out a quick 'six-year plan' which could be used along with the Colombo Plan. (4) This was done by August 1950, and included a number of projects prepared (some were even in action) by various administrative bodies. (5)

When this task was finished, the Commission got down to its true work, which was to draw up a development plan based on socially and economically justified priorities. (6)

In July 1951, the Commission had prepared a draft outline of the plan which was to be in effect from April 1, 1951 to March 31, 1956. It would certainly have been a remarkable feat to prepare an economic plan, however generalized, for a country as large and complex as India; but, once again, this was not a real plan, being only a fusion of different projects, most of which were already under way in July 1951.

After the main projects had been examined by the Central Ministries, the State Governments and the representatives of the principal industries, many problems were discussed in the press, and the Commission drew up the final version of the First Five-Year Plan (1950–1 to 1955–6). This version was submitted to the government on December 7, 1952 (7) and approved. It was ratified by Parliament at the beginning of 1953. (8)

The organization of the State bodies which should theoretically prepare and watch over the execution of the plans is not always identical. In each State, there should be a State Planning Committee (S.P.C.) on the same lines as the central Commission, and there is usually a larger organization called the State Planning Board composed of the S.P.C.'s members plus some non-official members. The latter organization is presided over by the Chief Minister of the State. Unfortunately, the powers and technical competence of these two bodies are not equal to

the demands made on them. There had been talk of creating true Planning Commissions on a State level but until now nothing has been decided.

Further down the scale, there is theoretically a District Planning Committee (D.P.C.) headed by the District Planning Officer (D.P.O.) and presided over by the Collector or the Deputy Commissioner, both civil servants. Finally, there is a Project Advisory Committee (P.A.C.) with official and non-official members which advises the Project Executive Officer (P.E.O.). (9) This structure has slowly taken its present shape. The National Development Council is at present responsible for the whole organization.[1]

The Planning Commission's activities are not limited to preparing the Five-Year Plans. It must also judge whether they are going as foreseen or should be revised.

The Commission directs a corps of civil servants who are assisted by a group of government economists, as well as by the specialized services of the Technical Ministries and by two statistical organizations. These are the Central Statistical Organization (C.S.O.), which gathers and collates most of the statistics available from official sources, and the Indian Statistical Institute (I.S.I.), a semi-public organization which makes tests by means of the National Sample Survey (N.S.S.) as well as doing practical and theoretical work.

These are not the only sources of the statistics used by the Planning Commission, especially where agricultural and financial statistics are concerned. In the latter case, it uses the statistics prepared by the Reserve Bank of India.

The I.S.I.'s activities increased a great deal during the First Five-Year Plan due to the energy of its director and founder, Professor P. C. Mahalanobis. It began to study planning problems in 1953, and in 1954 was asked by the Prime Minister to work out the preliminary project for the Second Five-Year Plan (which was done in 1954 and 1955). (10) This was the basis on which the Planning Commission drafted the final version of the Second Five-Year Plan.

While the Second Five-Year Plan was in preparation, the Planning Commission was given the advisory services of an Economists' Panel, and later a Planning Council was created. To work out the Fourth Plan,

[1] The N.D.C. includes representatives of the central and provincial governments. It formulates recommendations concerning economic policy and the implementation of the Plans.

the Commission set up 43 study-groups under the supervision of the Ministerial Secretaries concerned. (11)

We leave aside the theories used during the preparation of the Plans and the differences over methods which arose during the work.

4. THE DIMENSIONS OF THE FIVE-YEAR PLANS

There are various ways of judging the dimensions of the Five-Year Plans: by the financial resources used during the time they were in action; by the results obtained (in the increase of National Income, for example); by the changes made in industrial organization, etc. We shall adopt the method which is customary in India and treat the financial questions first. The other points will be discussed later when we touch on the objectives of the Plans.

There are three ways of measuring the Plans' financial dimensions: by calculating, first, the volume of public spending; secondly, the volume of public investments; thirdly, the total sum of investments.

Public spending on development includes both public investments and the initial running expenses. The First Plan does not distinguish between the two, but it is known that investment accounted for about two-thirds of development expenses, although the precise figure varied in each sector. The table below shows the actual and expected development expenses for the first three Plans.

PUBLIC EXPENDITURE ON DEVELOPMENT (12)
(IN THOUSAND MILLION RS. AT CURRENT PRICES)

First Plan	(original)	(1951–6)	20·7
First Plan	(revised)	„ „	23·8
First Plan	(actual)	„ „	20·1
Second Plan	(original)	(1956–61)	48·0
Second Plan	(actual)	„ „	46·0
Third Plan	(forecast)	(1961–6)	75·0
Third Plan	(probable)	„ „	86·0[1] (13)

Public spending has increased fairly rapidly. Even allowing for the rise in prices, there was a considerable expansion: development spending

[1] The gap between forecast and probable expenditure is due to underestimation and price increases.

shows a net increase of about 100 per cent between the First and Second Plans, and a rise of about 80 per cent between the Second and Third Plans.[1]

Two points should be made in relation to these figures. First, development spending is only a very small fraction of the National Income: 4 per cent for the First Plan, 7 per cent for the Second, and probably about 10 per cent for the Third. (14) Secondly, if allowance is made for foreign aid, the fractions are reduced still further: 3·6 per cent of the National Income for the First Plan, 5·7 per cent for the Second, 6·4 per cent for the Third.

The increase of public spending on development is therefore less for the Third Plan. The reason for this is not lack of resources. The fact is that large resources are poured into non-essential industries by the richer sections of the population and by private enterprise. Other equally large resources are left untapped (because of rural underemployment and urban unemployment, particularly of young people leaving school).

The rate of increase in public spending has dropped simply because the government is incapable of using all the available resources for large-scale social and economic development.

The stumbling block is the type of production and property relationships which are prevalent. There is also the social and political situation: the Indian government is too dependent on the propertied classes and cannot go against their interests even if future economic growth is at stake.

When development is in line with the major political and social groups' interests, the government can rapidly mobilize large sums which may have seemed non-existent previously. Between 1960–1 and 1963–4, the government was able to increase the defence budget by about 5·25 thousand million Rs. This is a greater increase than has ever been known in the total of public and private investments (15), which is the next point to be studied.

5. THE GROWTH OF INVESTMENTS

The way in which total investments are shared between 'investments from public funds' and 'investments from private funds' is a fairly good

[1] These figures may be compared with the rise in total investments between the First and Second Soviet Five-Year Plans, which was about 124 per cent.

indication of the tendency towards State capitalism, and we shall analyse this also.

AGGREGATE NET INVESTMENT AND ITS DISTRIBUTION BETWEEN PUBLIC AND PRIVATE INVESTMENTS (13)
(at current prices)

	Public Investment		Private Investment		
	In thousand million R.s	% of total	In thousand million Rs.	% of total	*Total*
First Plan	15	48	16	52	31
Second Plan (original)	38	61	24	39	62
Second Plan (revised)	36	60	24	40	60
Second Plan (actual)	36·5	54	31*	46	67·5
Third Plan	63	61	41*	39	104

* Excluding transfers from public funds used for private investments.

Total Investments

Let us first examine the growth of total investments during the three Plans (cf. table above) according to the estimates.[1]

Total investments are seen to rise rapidly. This is in contrast to previous stagnation and is explained by the Indian government's economic policy as expressed in the Plans. Although it was not possible to control the size and distribution of private investment, the expansion of public spending and some of the government's actions have had a very favourable effect on the total volume of private investments. Indian capitalism has found new energy.

The rise in total investments, if calculated at fixed prices, is not quite so great as appears from the table, but is none the less impressive.

At 1952–3 prices (which are more or less the prices current during the

[1] It must be understood that estimates of National Income and of private investments are highly approximative. The figures quoted should be considered as *indications of volume.*

whole of the First Plan) the total volume of investments rose from 31 thousand million Rs. during the First Plan to about 59 thousand million Rs. during the Second Plan. This total should reach 83 thousand million Rs. during the Third Plan (assuming a 20 per cent rise in prices since 1952–3). The figure of 59 thousand million Rs. for the Second Plan means that estimated figure of total investments was not reached. (17)

In percentages of the National Income, total investments show the following figures: 6 per cent over the whole of the First Plan and 8 per cent at the end of it, 11 per cent towards the end of the Second Plan and 12 per cent during the Third Plan. But if foreign participation not used to pay interest on outstanding debts is subtracted from the total volume of investments in order to find the rate of national saving, the results are as follows: about 6 per cent during the First Plan, about 8 per cent at the end of the Second Plan and about 10 per cent during the Third Plan. (18) The percentage is small and certainly insufficient if India is to make good her economic lag. (19)

It should also be noted that the balance between national accumulation and foreign aid has moved in the wrong direction if India is to pursue a policy of economic development and independence. During the First Plan, foreign aid totalled 3 per cent of national accumulation; during the Second Plan, the total rose to about 25 per cent; during the Third Plan it should reach 40 per cent (including funds used for interest and repayments abroad). (20) This is a situation which should cause great concern for the hopes of future economic independence.

Public and Private Investments

As the table on page 152 shows, the volume of public and of private investments during the First Plan was roughly the same.[1] This is an important change, for in the preceding period public investments were only a little more than one-third of total investments. (21)

The First Plan thus marks the beginning of a new attempt to increase aggregate investments by using government pressure. This effort was continued during the Second Plan, in which the ratio of public to private investments was to rise from 50:50 to 61:39. In fact, this second ratio was not achieved, and the resulting figures are not so different from those of the First Plan (54:46). The crux of the matter was that the Second

[1] This rough equivalence does not mean that the two sectors were equally powerful; on this point, see the comments later in the chapter.

Plan could not mobilize the extra fraction of national accumulation in the public sector. If the total of foreign aid is subtracted from the sum of public and private investments, we shall have the total of the national accumulation concentrated in the two sectors. This total rose in the public sector from 13·1 thousand million Rs. to 17·5 thousand million Rs., and from less than 16 thousand million Rs. to 30 thousand million Rs. in the private sector, during the First and Second Plans. The public sector's share in the national accumulation therefore fell from about 40 per cent to about 37 per cent.

As far as investments are concerned, the Third Five-Year Plan had a proposed ratio of 61:39, but this could not be achieved. Thus, the public sector's share of national accumulation, which has diminished in recent years, could not increase rapidly and reach the proposed figure of 52 per cent in the absence of structural reform.

If present conditions do not change, there will have to be a larger proportion of investment by the private sector. Such a movement did in fact begin early in 1961 with the increased number of fertilizer factories to be created in the private sector. The private sector's envisaged financial needs for the development programme were underestimated. In fact, the private sector increased its investments rapidly, much faster than was anticipated by the Third Plan—but did not invest according to the priorities laid down by the Plan. (22)

The above figures call for the following comments:

1. The policy of the Plans called for a parallel increase in public and in private investments. Private investments increased by 100 per cent during the Second Plan. In other words, the expansion of public spending has favoured and not harmed private investment. The same is true of the Third Plan. (23)

2. *Public investments have been financed to a steadily decreasing extent from national resources.* In fact, foreign aid totalled 12·7 per cent of public investments during the First Plan and 28 per cent during the Second. If India receives 32 thousand million Rs. of foreign aid during the Third Five-Year Plan, that will be approximately 40 per cent of the proposed public investments.

3. Thus use of State machinery to increase the total of investments has allowed India to obtain increasing foreign aid for her public investments. The increases in the public sector have largely been due to increased foreign aid.

4. Increase in investments of public funds should not be confused

with the development of the 'public sector' (in the economic sense).[1]

5. The growth of the public sector's economic power is not necessarily proportional to public investment.[2] We shall return to this point later in this chapter.

Greater efforts were made during the Third Plan to stimulate private investment, although they reached the expected level (but were not used in the expected way). The efforts made suggest that India's economic policy may be moving towards a greater emphasis on private investment. This change is not stated in any official document but it is visible in the workings of many current measures, especially in the field of social policy.[3] Other measures to encourage private investments have also been taken; the Government has set up a unit trust to mobilize capital for industry and has taken direct action on the financial market to support the exchange rate. Some decisions on prices have been made to increase profits and gains from private investment (*v. E.S.* 1965, pp. 7, 8 and 28). At the end of 1964, there was an increase of activity on the capital market, and variable-dividend individual securities gave roughly a 20 per cent jump in payments. But, despite the increased possibilities for productive investments, there was still strong competition from speculation at high interest rates and from the high return payed by urban property. Budgetary concession to private capital was accompanied by a big rise in indirect taxation and in some prices for public services (on the railways in particular).

[1] A large amount of public funds are invested in the *administrative* sector. Before the First Plan, a little more than half of public investments was used for the public sector; in 1956–7 the proportion was increased to two-thirds and has been rising since. Also, some public investments are made in the private sector (during the Second Plan about 2 thousand million Rs., which meant that investments in the private sector actually totalled 33 thousand million Rs.)

[2] According to the *M.F.F.Y.P.* (p. 10), private investments are expected to reach nearly 7 thousand million Rs., i.e. about 35 per cent of total investments. The figures for investment in the public sector seem very high. The estimates for investment in the public sector do not correspond to what might be expected from the results of the Third Plan.

[3] For example, in the 1965–6 budget there are many encouragements to investment and private savings, directed at the 'corporate sector' (companies) and at private foreign investors in particular. It is estimated that they will save companies 300 million Rs. in taxes (*v. E.W.*, March 7, 1964, pp. 488–9 and May 2, 1964, p. 750, and also the *Economic Times*, March 3, 1964).

6. THE MAJOR OBJECTIVES AND CHARACTERISTICS OF THE PLANS

As we have already remarked, the First Plan was not based on coherent theories. The Planning Commission had only time to examine projects which had already been prepared and to accept the ones which seemed to offer the greatest scope and the fewest problems from the Ministry of Finance's point of view.

The First Five-Year Plan

Despite what has been said above, the First Plan implied a definite view of the Indian economy's future development and hinged on a few major decisions.

First, it assumed that the National Income would continue to rise until it was doubled in 21 years' time (towards 1971–2). It follows from the increase in population that the National Income *per capita* should have doubled in 1977–8 and that then, 27 years after the beginning of the First Plan, consumption *per capita* (allowing for the rise in the investment rate) should have increased by 70 per cent.

These objectives or expectations are quite modest in comparison with those of the National Planning Committee or the Bombay Plan. The latter predicted that the standard of living would be doubled or tripled in 10 years and that the food ration of an adult worker would be 2,400 to 2,800 calories.

The two main decisions of the First Plan were, first, to concentrate on private investment rather than on public investment; secondly, to promote agriculture before industry. The table overleaf shows how public spending on development was allotted.

Even if one subtracts the cost of hydro-electric projects (roughly 2·5 thousand million Rs., according to the original Plan) from the irrigation expenses, agriculture, irrigation and community projects have much the largest share of development funds. Next come transport and communication, then social services, followed by power-plant expenses (about 3·8 thousand million Rs. including part of the funds allotted to major projects). Outlay for industry comes last, some way behind the others. In order of priority, the First Plan placed agriculture and irrigation first, then transport and communications, social services, power, and finally industry.

The Planning Commission justified this order of priority by the

PUBLIC EXPENDITURE ON DEVELOPMENT: FIRST PLAN

	Original Plan		*Revised Plan*	*Actual Result*	
	in thousand million Rs.	in per cent	in thousand million Rs.	in thousand million Rs.	in per cent
Agriculture and community development	3·6	17·5	3·4	2·9	14·4
Irrigation and major projects	4·3	21·0	4·7	4·3	21·4
Electricity	1·3	6·1	1·8	1·5	7·4
Other industries	1·7	8·4	1·9	1·0	5·0
Transport and communications	5·0	24·0	5·7	5·3	26·4
Social and other services	4·8	23·0	6·3	5·1	25·4
Total	20·7	100	23·8	20·1	100

seriousness of the agricultural crisis with its constant menace of famine, and by the exceptionally low average food ration. They also quoted the high cost of importing foodstuffs which the Indian economy was then forced to bear although it was essentially an agricultural economy. (24)

The importance given to transport and communications was partly explained by an effort to make rural districts less isolated. Spending on health services and education was quoted as the essential point of the social services programme.

The importance given to developing electrical power shows that both immediate and future needs were not put very high. The low figure of spending on industrial development is linked to the conception that private investment should do the job if, as was proposed, favourable conditions were to be offered.

The First Plan follows the line set by the Industrial Policy Resolution of April 6, 1948. (25)

There are other points to be considered apart from these 'technical reasons' given by the Planning Commission and the government to justify the order of priorities. The 'technical reasons' are to some extent based on undisputed necessities. But we must also examine the political and social reasons which have determined the First Plan's order of priorities.[1]

Since there was no major agrarian reform, the increase of agricultural production and revenue—which would raise the level of consumption and increase the size of the domestic market—had to depend mainly on public outlay. Hence the precedence of agricultural development, irrigation and transport in the priority list. Both economic and political necessities explain the expenditure on social services. The other categories can also be explained by technical needs (electricity) and political pressure (aid to small industry).

Characteristics of the Second Plan

The Second Plan was, in principle, different from the first. The following are the most important economic factors which help to explain the difference.

1. While the Second Plan was in preparation, it seemed as though the First Plan had underestimated the economy's capacity for development even in the existing political and social conditions. An 11 per cent rise in the National Income had been expected, whereas the figure for the five years concerned was nearer to 18 per cent.

2. At the same time, the government and public opinion were influenced by the good harvest of 1952–3. There was a widespread feeling that agricultural production could be increased with very little effort and that, consequently, the inflationary effect of greatly increased public spending and investment could easily be avoided or at least contained.

3. The First Plan's balance of payments was in general very favourable; this again was an inducement to a more confident economic policy.

4. The tendency towards a fall in prices which was prevalent since the end of 1951 made capitalist circles more favourable to heavy public spending financed by monetary expansion.

[1] On the whole, the order of priorities was respected. But it should be noted that spending on agriculture and community development was less than foreseen, mainly for administrative reasons, and that transport and communications eventually received the largest share. Industry also got less than the original estimate.

5. The bourgeoisie's economic positions had been reinforced during the First Plan: it was therefore ready to accept more ambitious projects.

Also, industrial development during the First Plan had made it probable that there would be bottlenecks in the production of coal, electricity, steel and certain plant. The only way of avoiding stoppages would be to increase investments.

6. Big capital was willing to invest in the sectors offering ready profits but was much less willing to tie up its wealth in long-term investments, i.e. in industries which might take some time to yield profits and whose eventual yield, given the price structure, might be low. Also, the required investments demanded more funds than were then available to private capital. Big capital therefore accepted and even demanded State expenditure on development, even in the industrial field. Thus the preference for increased State action.

This was accepted as only a temporary solution. Private capital wanted to take over the more profitable public investments at a later date and also hoped to buy up some of the enterprises which were to be created in the public sector. (The authors of the Bombay Plan express the same idea.) Big capital accepted the situation because it also meant that foreign financial assistance could be obtained without resorting to further private foreign investment. The State machinery could be used as an *instrument of extra capital formation*, by means of heavy indirect taxation and monetary expansion accompanied by a rise in prices. We shall see below how the Second Plan expressed these conceptions.

From a political point of view, the Second Plan's originality can be explained by a number of other factors:

1. Despite an increase in the aggregate National Income, there was very little rise in the standard of living of the population as a whole. (We shall take up this point in a later chapter.) Discontent, disillusionment, bitterness and lack of enthusiasm were increasing, as was a spirit of radicalism among the working class and in some sections of the middle classes. It was politically essential for the Congress Party—which had been in power for some time—to propose a more ambitious and apparently more 'radical' Plan because of the greater importance given to the public sector.

2. China's economic success since 1949 and India's desire not to lose

ground in comparison with her neighbour were other factors which made a more ambitious plan readily acceptable.

3. Socialist ideas in India had been given new credit by the successes in Russia and in China.

The result was that the word 'socialism' was adopted by the Congress Party, by the Indian Parliament and (for a time) by the press under big-capitalist control.[1] This does not mean that all the social classes rallied in favour of socialism. The term expressed the true hopes of some; for others it was merely a verbal concession to public opinion, adopted for the sake of convenience.[2]

Nevertheless 'socialism' is the ideological justification for the Second Plan's emphasis on public investments. Big capital's acquiescence in State capitalism was supported by left-wing and extreme left-wing opinion. (26)

The Orientation and Prospects of the Second Plan

The Second Plan was more optimistic than the First about economic development. India's National Income was expected to attain 134·8 thousand million Rs. (at 1952–3 prices) in 1960–1, and to have doubled (in comparison with 1950–1) by about 1967, i.e. four years earlier than estimated in the First Plan. The National Income *per capita* was expected to have doubled by 1973–4. (27)

The way in which expenditure is distributed shows that there was some change in the order of priorities.

According to the table overleaf, the original Plan gave absolute priority to transport and communications, which have by far the largest slice of development credits. But their new place in the priority list is only theoretical, for in the results of the First Plan they were already in first place.

In the preliminary outline for the Plan (the 'Draft Plan-Frame'), drawn up under the direction of Professor Mahalanobis and approved by the government, transport and communications (which are essen-

[1] At Avadi, in January 1955, the Indian National Congress adopted a resolution declaring that planning should be directed towards the establishment of a socialist structure of society in which the principal means of production should be the property of society or should be controlled by society. A little later, the Indian Parliament adopted a similar resolution.

[2] The right wing of Congress (the largest section of the party) gave verbal agreement to Nehru's social reformism. This concession had to be made because most of the party's supporters, just before the start of the Second Plan, were behind Nehru.

PUBLIC EXPENDITURE ON DEVELOPMENT: 2ND PLAN

	Plan		*Result*	
	in thousand million Rs.	in per cent	in thousand million Rs.	in per cent
Agriculture and community development	5·7	11·8	5·3	11·0
Irrigation and major projects (excluding electricity)	5·3	11·1	4·2	9·0
Electricity	3·8	7·9	4·45	10·0
Industry and mining	8·9	18·6	10·75	24·0
Transport and communications	13·8	28·9	13·0	28·0
Social and other services	10·5	21·7	8·3	18·0
Total	48·0	100·0	45·00	100·0

tially at the service of other economic activities) were not given absolute priority. They came third (with 22 per cent of the public development funds), after industry and mining (26 per cent), and agriculture, irrigation and rural development (22·5 per cent). The total volume of projected expenditure was lower than that of the final Plan, being only 43 thousand million Rs. The outlay on transport and communications increased in the interval between the Draft Plan-Frame and the final project from 9·5 to 13·8 thousand million Rs.

The changes in the final version of the Second Plan show that the big bourgeoisie was not willing to go too far towards State capitalism.

The priority given to transport (which was even more evident in the Revised Plan of 1958), and to the railways in particular, seriously compromised the Plan's structure and to a large extent diminished the possibility of industrialization. This is even more the case since about 40 per cent of the foreign currency needed for public spending originates from the transport sector.

Second in the Second Plan's priority list comes agriculture (including irrigation, etc.), with 22·9 per cent of projected development funds. Its

place is explained by the reasons given above under the heading of the First Plan; no fundamental improvement had been made.

Social and other services are in third position. Once again, the Draft Plan-Frame had been altered; originally, this category came fourth, with 17 per cent of a lower total amount of expenditure, and 7·5 thousand million Rs. instead of 10·5 thousand million Rs.

As we suggested above, the reasons for the changes in the final version of the Plan were first of all pressure from the big bourgeoisie who did not want State investment to go beyond a certain point; but also, the electioneering value of social expenditure and the eagerness of the various States to get large credits for this sort of expenditure.

Public expenditure on industrial development comes in fourth place in the final version of the Second Plan. This is quite remarkable when one knows that the Plan was intended to concentrate on industrialization, and that the Draft Plan-Frame followed the lines of those intentions.

The demotion of industry from first to fourth place meant a fall in projected expenditure from 11 to 8·9 thousand million Rs. The latter figure is low for a country as large as India and shows that only a fairly limited amount of industrial progress could be expected from the public expenditure for the Second Plan. In fact, out of 8·9 thousand million Rs., only about 5·6 thousand million Rs. were invested in the modern industries, the rest going to small industries (about 2 thousand million Rs.), mining, and current expenses.

Finally, *public expenditure on industry is hardly greater than the volume of private investments in industry.*[1] This also is contrary to the Draft Plan-Frame, and must be strongly emphasized, since the Second Plan was proposed as one of industrialization based on larger priorities for the public sector.[2]

Finally, public expenditure on electricity is the lowest of all, hardly enough to cope with the growing demand.

In the following chapters, we shall see how the different sectors of the Indian economy actually developed during the Five-Year Plans. But

[1] In 1958, the Planning Commission had to make a revised and higher estimate of expenditure on Industry; but that doesn't change the situation. Private industrial investments totalled 8·5 thousand million Rs. (6·5 thousand million Rs. was anticipated); public investments 7·7 thousand million Rs. (5·6 thousand million Rs. was anticipated). Both these figures relate to big, modern industry. (See *T.F.Y.P.*, p. 455.)

[2] Public investments in Industry increased tenfold between the First and Second Plans, but this does not mean much, for the original outlay on industry was very small.

first it should be noted that the development resulted in much the same proportions for the Third Plan as for the Draft Plan-Frame of the Second Plan. The general outline of the new proposals corresponded to development needs, but the Third Plan came into operation five years later than when the ideas were set out, and at a time when disproportions were not so great.

The Priorities of the Third Plan

The Third Plan's priorities for public expenditure are in fact quite like those of the Draft Plan-Frame prepared by Professor Mahalanobis. Here is an analysis of development expenditure:

PUBLIC EXPENDITURE ON DEVELOPMENT: THIRD PLAN (28)

	in thousand million Rs.	in per cent
Agriculture and community development	10·68	14
Irrigation	6·50	9
Power	10·12	13
Industry and mining (including small enterprises)	17·84	24
Transport and communications	14·86	20
Social and other services	13·0	17
Stocks	2·0	3
Total	75·00	100

Industry now comes in first place, with nearly one-quarter of the credits, which are 70 per cent higher than originally proposed by the Second Plan (but prices had risen by about 20 per cent in the meanwhile). The total expenditure on development increased by 66 per cent. Most of the extra funds were directed towards industry and mining.

In second place comes the expenditure on agriculture, irrigation, and community development. The priority is apparently the same as in the Second Plan, but in fact the funds are a little larger than in the Second Plan.

Transport and communications remain in the same position (third place) as for the Draft Plan-Frame of the Second Plan, but have decreased in comparison with the actual Plan. The total of credits allotted is only slightly higher, and in real value is actually lower.

Social services are also in the same place as before, but are relatively lower. Electrification, still in fifth place, rises sharply in real value.

The Third Plan's expenditure on development therefore shows proof of some effort towards industrialization. The disappointing progress of agriculture—and we shall return to this point—explains the increased financial effort in that domain; the unjustifiably large sum previously devoted to transport and communications explains why there is no increase in their allotment.

Public and private investments in the various branches of industry, as foreseen by the project for the Third Plan, reflect the same preoccupations:

PUBLIC AND PRIVATE INVESTMENTS (29)

	2nd Plan actual		*3rd Plan targets*	
	in thousand million Rs.	in per cent	in thousand million Rs.	in per cent
Agriculture, community development, irrigation	12·55	19	21·10	20
Power	4·85	7	10·62	10
Small industry	2·65	4	4·25	4
Big industry and mining	15·45	23	25·70	25
Transport and communications	14·10	21	17·36	17
Social services	12·90	19	16·97	16
Stocks	5·00	7	8·00	8
Total	67·50	100	104·00	100

Out of the 25 thousand million Rs. of public industrial investments allotted to large-scale industry by the Third Plan project, nearly 22 thousand million Rs. were to be invested in the basic industries. About 60 per cent of this sum was to be invested by the State, but it seems that private industrial investments will be larger than anticipated.

The Results of the Second and Third Plans

As we have already mentioned, the Second Plan estimated that the aggregate National Income would reach 134·8 thousand million Rs. in

1960–1 (at 1952–3 prices). In other words, the Second Plan anticipated a 25 per cent rise in the real National Income against 18 per cent for the period of the First Plan. (30) This estimate was based mainly on the expansion which could be expected from a higher rate of investment, and on optimistic hopes for the yield from these investments. (31) The Second Plan ended with a rise of 21·5 per cent in the real National Income. The National Income *per capita* showed even less of a rise. The population forecasts made just before the start of the Second Plan have proved incorrect. It was thought that India's population would reach 408 millions at the end of the Plan, against 384 millions at the end of the First Plan. The Census of March 31, 1961 records 435·5 million inhabitants. The National Income *per capita* at the end of the Second Plan was about 293 Rs. (at 1948–9) prices; it had therefore risen by about 9 per cent in five years. And this figure is probably an exaggeration, for part of the rise may be due to the improved methods used in taking the Census.

The National Income has shown an even slower rate of growth since the beginning of the Third Plan. At 1948–9 prices, it rose from 127·3 thousand million Rs. in 1960–1 to 144·9 thousand million Rs. in 1965–6. It reached 150·5 thousand million Rs. in 1964–5 and fell to 143·9 thousand million Rs. in 1965–6.[1] This gives a rise of 13 per cent over five years. These figures call for the following observations.

Firstly, their meaningfulness has been contested on the grounds that the methods used for calculating the National Income are unsatisfactory (some parts of the Income are determined by indirect calculation). The calculations are based on the theory that indirectly estimated quantities (for the output of small enterprises, for some services, etc.) are linked to the movements of directly measurable quantities. Such hypotheses may have been partly valid in 1951, but are not acceptable today. Some authors (32) think that the National Income is consequently underestimated. This is not certain. Some of the 'small enterprises' must have grown faster than the officially estimated rate of growth, but others may not have expanded or may be losing trade through competition from the organized industries. We also know that estimates of output or of income at 'constant prices' tend to exaggerate increases in production or in income. This is another important factor, and operates even more strongly as the year chosen for the price-basis becomes more distant. In the absence of newer and better statistics, we can suppose that the

[1] The National Income at current prices is much higher—200 thousand million Rs.—owing to the rapid rise in prices.

present system's underestimations are more or less cancelled out by the accompanying overestimations.

The slow rise in the National Income at constant prices means that the Third Plan's targets have not been reached: instead of a 30 per cent rise in the real National Income, there was only a 13·8 per cent rise.

The National Income *per capita* was almost stationary during the first two years of the Third Plan and rose by 13 per cent in 1963–5 and came down in 1965–6. At the end of the Third Plan it had increased by 1·7 per cent (less than 0·1 per cent per year) instead of by 16 per cent as anticipated in the Plan. Since the inequalities of distribution have increased (33), that means the same income per person as before for the major part of the population (34), and a lower income for many people. (35)

With a *per capita* income of 298 Rs. in 1965–6 (in 1948–9 prices), India is far from the 396 Rs. anticipated in the Third Plan.

The slow overall rate of progress, despite considerable effort, is mainly due to the state of agricultural production. Before analysing this sector, we must say how recent developments have affected the place of the public sector in the Indian economy, which is an indication of how State capitalism has been progressing.

7. THE PUBLIC SECTOR

The importance given to public investments might suggest that the public sector now has an important place in the Indian economy. In fact, although its action has been greater in the last few years, it still has limited scope and is by no means the major force in the economy.

This is so first of all because it was of little importance just after Independence. As there has been no large-scale nationalization, the amount of investments in the public sector has increased its power to a very small extent. Also, State investment from the income of the public sector has been limited because most of its investments are not immediately productive, or else give only very low returns in the public sector itself. A typical example is irrigation: investments in irrigation may have an appreciable effect on agricultural income but give almost no return to the public sector itself.

In 1948–9, the State-owned enterprises' net value of production was estimated at 2·4 thousand million Rs. (36), or 2·8 per cent of the domestic product. In 1950–1, the figure had risen to 2·9 thousand million Rs. (3·0 per cent of the domestic product); at the end of the First Plan it was 4·2 thousand million Rs., or 4·2 per cent of the domestic product.

Thus, during the First Plan, the importance of the public sector (both industrial and commercial) in relation to the National Income increased by 40 per cent. This is an impressive increase, but still does not mean that the public sector is strong.

Since the end of the First Plan, the net value of production in the public sector has risen sharply. It reached 5·7 thousand million Rs. at the end of the Second Plan and 6·7 thousand million Rs. in 1962–3 (at current prices). But the rapid expansion of administrative activities (counted in the domestic product) and of the private sector reduced the productive share of the public sector to 4 per cent of the domestic product at the end of the Second Plan. Its share was 4·3 per cent in 1962–3, and equivalent to about 7·8 per cent of the net value of non-agriculural production. (37)

This shows that the movement towards State capitalism has not yet given rise to a powerful public sector. India's public sector has been and remains subordinate to the private sector, as will become more evident when we examine the share of the National Income earned in the various branches of the public sector.

In 1950–1, out of a total net value of 'production' in the public sector of 2·9 thousand million Rs., 2·2 thousand million Rs. came from the postal services (400 million Rs.) and the railways (1·8 thousand million) combined; that is to say, from no net contributions to material production. Only the remaining 700 million Rs., or most of it (38) came from a real contribution to material production.

In 1955–6, the net production of the public sector in activities other than transport and communications was 1·2 million Rs. and rose to 1·4 thousand million Rs. in 1957–8; the latter figure is 28 per cent of the total net production for that same year in the public sector (5·1 thousand million Rs.). In more recent years, only 34·6 per cent (1962–3 figures) of income from sales in the 'productive' public sector come from sources other than the railways. (39) This indicates that, in terms of net value of production, the situation has changed little during the Third Plan.

It must be stressed that most of the National Income earned in the public sector comes from payment of individual incomes (wages, salaries, debt services) and that only a very small fraction is retained by the public sector and is therefore available for investment.

In fact, it is always the railways and the postal services which contribute to capital accumulation; the other State enterprises give next to no support. At the beginning of the Third Plan, out of about 700 million Rs. of profits or contributions in the 'productive' public sector (including railways and postal services) only 36 million Rs. were produced by 66 State enterprises. (40) This is a very low figure when one considers that 1,034 million Rs. were invested in those 66 enterprises during the same year, and that the assets of State-owned companies are of the order of 5,452 million Rs. (41) New enterprises show slightly higher profits after this period, but old enterprises show a fall in profits; the two more or less cancel out. (42)

On the whole, State enterprises are not officially considered as a normal source of capital formation, and are merely mentioned when there is a discussion of possible sources for public receipts available for investment. The main reason for the low rate of capital formation in the public sector is that its products sell at unrealistic prices which allow only small profits. (43) Those who benefit from this situation are the private enterprises which buy from the State.

The public sector, although of limited size, is still an essential factor in the economy for two reasons. First, it has set up productive plants which could never have been financed by private capital for lack of funds and because private capital shuns long-term investment at low returns. The public sector was able to do this job by calling on foreign public loans (mainly from socialist countries). (44) Also the productive machinery created was mainly in the sphere of heavy industry. It therefore provides the plant for India's industrialization and will reduce the country's technical reliance on foreign countries. The development of steelworks, and of equipment for the metallurgical, mining, heavy engineering and electrical industries is of the greatest importance.

At the time of writing, no final decision has been taken about the exact size and contents of the Fourth Plan. When one examines the Draft Outline of the Fourth Plan (45), one can say that the three main weaknesses of the Draft are: first, that there has been no critical examination of past results and nothing seems to have been learned from them; second, that the Plan will be more dependent on foreign aid than the three previous Plans; third, that industry and land reform do not receive proper attention.

NOTES TO CHAPTER VII

(1) Towards the end of 1938, the National Planning Committee was created on the initiative of Congress. This Committee consisted of fifteen members, to whom were attached representatives of the governing bodies of each province, and of those Princely States which agreed to take part in this work.

J. Nehru described the composition of the Committee as follows:

> 'Among the members are well-known industrialists, financiers, economists, professors and scientists, as well as representatives of the Trade Union Congress and of the Village Industries Association. The non-Congress Provincial Governments (Bengal, Punjab, and Sind) as well as some of the major States (Hyderabad, Mysore, Travancore, Bhopal) co-operated with this Committee. . . . Hard-headed Big Business was there, as well as people who are called idealistic and doctrinaire, Socialists and near-Communists.' (J. Nehru, *The Discovery of India*, 3rd edition, London, 1951, p. 372).

Nehru was chairman of the Committee. It worked directly or through sub-committees until October 1940, when its chairman and many of its members were arrested.

(2) Towards the end of the second world war, the 'Bombay Plan' was worked out by a group of big-business men connected in the main with Tata Enterprises.

This group included three directors of Tata Enterprises, J. R. D. Tata, A. D. Shroff, and John Matthai, in addition to G. D. Birla, principal director of the Birla group. The plan was printed in 1944, at Bombay, by the New Book Company; in 1945 it was published in New York by Penguin Books.

It is especially remarkable that a number of those who prepared this plan had been members of the National Planning Committee. One of the authors of the plan, Sir Ardeshir Dalal, had taken part in the administration 'for Planning and Development' from the middle of 1944 onwards; this had been set up by the government of British India.

It is not surprising that the aims of this plan were very close to those agreed upon by the former National Planning Committee. These aims will not be analysed here. A résumé of the general principles of the plan can be found in the *Revue Economique et Sociale* of March 1946: 'Un plan

économique pour le développement de l'Inde', by Ch. Bettelheim (pp. 38–50).

(3) The tendencies of certain social groups towards different kinds of State capitalism are shown in a fairly obvious form in the 'Peoples' Plan' (the originator was H. N. Roy, together with a Committee formed on his initiative after Independence by the Indian Federation of Labour) and by the 'Gandhian Plan' which aimed at creating a self-sufficient village economy (cf. S. C. Dube, *India's Changing Villages*, London, 1958, pp. 3 *et seq.*).

(4) It was, in fact, in 1950 that the principal meetings of the Consultative Committee of the Colombo Plan took place. The idea for the plan came from the United Kingdom. The founder members of this Committee were Australia, Canada, Ceylon, India, New Zealand, Pakistan and the United Kingdom. The official aim of the Colombo Plan was to ensure the co-ordination of technical aid from member countries to South and South-East Asia. The Colombo Plan was only of minor importance to the economic development of India, from the point of view of technical and financial assistance. Of the 3·8 thousand million Rs. of financial aid received by India during the First Five-Year Plan, less than 500 million came from aid under the Colombo Plan; the proportion was even smaller during the Second Five-Year Plan.

On the Colombo Plan and India, see *India at a Glance*, pp. 403 *et seq.* For financial aid received by India within the framework of this plan, cf. *Economic Survey 1958–9*, Gov. of I. Press, New Delhi, 1959, table 5.6.

(5) Diverse administrations existed in British India for the co-ordination of economic policy. The tendency towards State capitalism was thus already evident, and the independent Indian government did not have to start completely from scratch; of course, the interests served by the State's actions changed radically with the coming of Independence.

A composite treatment of the development programmes undertaken before the creation of the Planning Committee will be found in the report prepared by Dr. Gyan Chand, *Provincial Development Programme*, New Delhi, 1950.

(6) For the Planning Commission's responsibilities, see S. C. Dube, *India's Changing Villages*, pp. 5–6.

(7) *The First Five-Year Plan*, Gov. of I. Press, New Delhi, 1953, xvi+671 pp. *Programmes of Industrial Development 1951–6*, Gov. of I. Press, New Delhi 1953, 275 pp.

(8) The Five-Year Plans begin on April 1 of their initial year, and end on March 31 of their final year.

During the preparation for and execution of the Plan, several bodies were constituted, either to participate in the preparation, or to see it put into effect.

Certain of these bodies came in only at the preparatory stage, and their rôle lay outside the administration in a purely consultative capacity; other bodies constituted elements of a vertical hierarchy of 'planning organizations' which, in theory, could form a continuous chain of committees stretching from the Central Government to the development block level. The development block is the basic administrative unit of the Community Projects and National Extension Service (N.E.S.). In fact, owing to the absence at all levels of a political directing force (a lack which reflects the evident contradiction of interests at the heart of society and of the Indian economic structure), these different organizations did not work in close co-ordination; they did not, therefore, participate effectively in the preparation and application of the Five-Year Plans.

(9) Cf. S. C. Dube, *India's Changing Village*, pp. 14 *et seq.* There is a well-laid-out administrative structure, but it would nevertheless be quite false to assume that this is enough to create conditions for efficient rural planning.

(10) In 1954 a Planning Division was constituted within the I.S.I. which did a great deal of work on the various planning problems.

A number of foreign experts were called into consultation during the preparation of the preliminary draft of the Second Five-Year Plan. A publication by Professor Mahalanobis sets out this draft plan, and another describes the method used (cf. *The Second Five-Year Plan, Draft Plan Frame, Recommendations for the Formulation of the Second Five-Year Plan*, I.S.I., Calcutta, August 1955, and 'The Approach of Operational Research to Planning in India', *Sankhya*, Vol. 16, parts 1 and 2, December 1955).

(11) Cf. *M.F.F.Y.P.*, p. 8; H. K. Paranjape, *The Planning Committee, A Descriptive Account*, New Delhi, 1964, pp. ix–216; Arthegnani, 'Growth of a Bureaucracy' in *E.W.* June 5, 1965, p. 921.

(12) The figure given for the Third Five-Year Plan was that adopted in early 1961 by the N.D.C. as the 'financial limit' for the Plan.

(13) The 'probable' amount of 86 thousand million Rs. of public expenditure on development was that which appears in the *Fourth Five-*

Year Plan, Draft Outline (Planning Commission, Delhi, 1966), p. 11. The percentage which this sum represents of the National Income (at current prices) is a very approximate evaluation; cf. *E.N.I.*, 1965 and *M.F.F.Y.P.*, p. 2 (footnote).

(14) Cf. K. N. Raj, *Indian Economic Growth*, Allied Publishers, New Delhi, 1965, 28 pp.; p. 3.

(15) From *T.F.Y.P.* (Third Five-Year Plan), New Delhi, 1961, p. 33.

(16) The First Plan did not explicitly deal with public investments, only with public development expenditure. In 1955, the original First Plan's figures were considered significant in that total investments, which were estimated to reach 3·2 thousand million to 3·4 thousand million Rs., were divided equally between public and private investments (*2nd F.Y.P.D.P.*, p. 19).

The figures on the first line of the table correspond to the 'results' estimated by the Planning Commission (*R.F.F.Y.P.*, p. 9). For the Second Plan, the sources of the original and revised previsions are the *S.F.Y.P.* and the *A.P.S.F.Y.P.* The figures of actual 'profits' are the estimates given by the *T.F.Y.P.*, p. 59.

(17) It is even more true because the sum of 67·5 thousand million Rs. represents an evaluation of the total of self- or non-monetary investment (particularly important in agriculture). This seems to represent about 10 per cent of total investments, as now estimated. Similarly evaluated, the investment total for the First Plan would be 33·6 thousand million Rs. (cf. on this point 'The Promise for 1965–6', an article by W. Malenbaum in *E.W.*, February 18, 1961, pp. 329 *et seq.*).

(18) *E.S. 1965*, p. 10, § 10.

(19) *M.F.F.Y.P.*, p. 3, § 6.

(20) This 40 per cent represents the relation of the 32 thousand million Rs. of foreign aid (public and private) to a national accumulation of 77 thousand million Rs. (these 77 thousand million Rs. correspond to the difference between 104 thousand million Rs. of investments, and 27 thousand million Rs. for external aid, which was provided for as serving public and private investments).

(21) According to M. Mukherjee and A. K. Gosh's 'The Pattern of Income and Expenditure in the Indian Union', *Bulletin of the International Statistical Institute*, vol. 33, part III, p. 66, the net investments for 1949–50 came to about 5·6 thousand million Rs., of which 2 thousand million were to be made in the public sector (the public sector's total was estimated with reference to the national balance).

(22) *E.S. 1965*, p. 4, § 14.

(23) The capital raised on the financial market by private companies was 554 million Rs. in 1958, and 700 million in 1959; in 1960, the rate of increase must have been of the order of 5 per cent. As for authorized private issues (not including bonus issues), they were noticeably greater, because the allowances were used neither immediately nor entirely. These came to the following totals (in millions Rs.):

1957 : 1353
1960 : 1501
1964 : over 1880

(Sources: *E.S.* 1960–1, p. 8; and *E.S.* 1965, p. 28.)

(24) From 1949 to 1951, food imports cost India an average of 1·4 thousand million Rs. per year.

(25) Cf. Chapter 9 below.

(26) Of course not all the leaders of the left-wing and extreme left-wing parties were under the delusion that the big bourgeoisie and its spokesmen in Congress had really turned to socialism, or to a reformist policy with socialist leanings. In particular, the support given by the C.P.I. (the Indian Communist Party) to the substance of the Second Plan resulted in an analysis according to which: first, in an underdeveloped country such as India, State capitalism was in any case a step forward; and secondly, political and social development opened a perspective of a radical modification of social relations, and of a future transformation of the capitalist sector of the State into a socialist one.

The position of the C.P.I. has been defined in various documents, in the Secretary-General A. Ghosh's book *Some Questions of Party Policy* (Delhi, 1955, pp. 37–9 and 57), and in a controversy with the Soviet economist M. Rubinstein. The latter appears to concede that the way to socialism has been accepted by the Congress leadership, while A. Ghosh is opposed to this view and states that the road to socialism can only be taken under the political leadership of the working class and its vanguard (cf. *New Age*, October 1956; A. Ghosh, *On India's Path of Development*, pp. 6–18; and M. Rubenstein's article, *ibid.*, pp. 18–29).

(27) In 1952–3 prices, the National Income *per capita*, according to the 2nd Plan, should reach (in Rs.):

End of 2nd Plan	*End of 3rd Plan*	*End of 4th Plan*	*End of 5th Plan*
331	396	466	546

(cf. *S.F.Y.P.*, p. II.)

(28) From *F.F.Y.P.*, p. 58.

(29) *Ibid.*, p. 59.

(30) These increases are, of course, estimated from official figures. It is certain that this is an inaccurate estimate of the National Income. Part of the changes in this income are estimated, or based on controversial hypotheses (such as the maintenance of certain constant relationships between earnings in modern industry and earnings in small industry) (cf. *F.R.N.I.C.*, pp. 17 and 72).

(31) The relationship between expected investment and the increase in the National Income gives rise to a marginal coefficient of capital of 2·3.

(32) Cf. K. N. Raj, *Indian Economic Growth*, p. 2.

(33) The problem of a more unequal distribution of the income will be treated in Chapters 12 and 13. We shall see that recent and final statistics in this field are unfortunately rare. Note on this subject the pertinent observations of A. Rudra: starting from the statement by K. N. Raj that during the period of a Five-Year Plan, the marginal rate of savings had been twice the average rate, Rudra concluded that incomes were more unevenly distributed. (Cf. the article by A. Rudra in *E.W.*, July 3, 1965, pp. 1069–71). This increase appears particularly strong if one also notes that the productive part of the public sector had not effectively increased its contribution to the savings, and that the current budget ('above the line') now generally leaves a deficit instead of the former surplus (which was equivalent to a public saving).

(34) Concerning the rise in population, which obviously affects the National Income *per capita*, it should be said that the population of India in 1966 is now estimated at 495 million (from *3rd F.Y.P.*, p. 492). For the subsequent years, in 1971 there will be 555 million, and in 1976, 625 million (cf. *M.F.F.Y.P.*, p. 2).

(35) In 1963, about 60 per cent of the population had to make do with less than a rupee per day (as stated by J. Nehru to the *Lok Sabha*), and the poorest 10 per cent of the population have 8 Rs. per month in the country, and 10 Rs. per month in the villages (cf. *E.W.* September 14, 1964, p. 1539).

(36) These figures, like most that follow, are taken from a series of publications entitled *Estimates of National Income*. They are given in current prices.

(37) Calculated from *E.N.I.*, February 1964, pp. 2–5.

(38) The statistics available do not enable us to deduct the income from banking, commercial, or insurance activities in the public sector from these 700 million Rs. But in 1950–1, these incomes must have been small.

(39) *Ibid.*, p. 19.

(40) *Ibid.*

(41) Cf. *Commerce*, December 9, 1961, p. 1094, quoted from G. G. Kotovski's preface to the Russian edition (Moscow 1964). Including capital immobilized in the State sector (agriculture, railways, etc.), the R.B.I. estimated that the funds invested in the public sector totalled 82·4 thousand million Rs. (25·6 per cent of the national reproductible wealth). For transport, mining and factories alone the figure was 44·4 thousand million Rs. (53·1 per cent of the total), but transport accounts for a large amount of this sum.

(42) In 1964–5, profits from Central Government enterprises managed on a 'departmental' basis were 2·3 per cent of net profit in relation to invested capital and those of the other Central Government enterprises 2·32 per cent (calculated from the invested capital of the 32 enterprises now in operation of a projected 45). See Ajit Roy, *Planning in India*, Asia Publishing House, Bombay 1965, p. 457. The corresponding figures for private enterprises are officially 10 to 11 per cent (cf. *E.W.* July 10 1965, p. 1098).

(43) The public sector's price policy is extremely erratic from both a doctrinal and a practical point of view. There has been selling at cost price ('no profit, no loss'), at 'reasonable' profit, at prices which vary according to the buyer, and at maximum profit (cf. *ibid.* pp. 454–5).

(44) Nearly all the socialist country credits are to be used for big heavy-industry and power plants.

(45) The project (cf. *M.F.F.Y.P.*) put the total of public expenditure on development at 156·2 thousand million Rs., 130 thousand million Rs. being provided by the State. If one adds the 69·8 thousand million Rs. of private investments, the total volume of the Fourth Plan becomes 226 thousand million Rs. (*op. cit.* p. 10). Early in July 1965, a figure of 225 thousand million Rs. was approved by the N.D.C. Soon afterwards, various officials declared that the Fourth Plan ought to be less ambitious (cf. *E.W.* of July 17 and August, 8, 1965, p. 1121 and p. 1215 respectively). See also *D.O.Fth.F.Y.P.*

VIII

AGRICULTURE AND AGRARIAN POLICY

I. THE PLANS AND THEIR RESULTS

Our first task, if we are to understand the development of India's economy as a whole, is to discover what is happening in agriculture. About half of the National Income is earned by about 70 per cent of the working population who are engaged in agriculture. Unfortunately, the statistics relating to agricultural production are the least reliable. (1) Even so, we shall give an interpretation of agricultural production (both animals and crops) (2) and compare results with the forecasts given by the Plans. The following table gives the production indices of the main crops.

INDICES OF PRODUCTION OF THE MAIN CROPS (1949–50) (3)

	Food grains	Oil-seeds	Sugar-cane	Cotton	Jute	Average production index
1950–51	90	98	114	111	106	96
1951–52	91	97	123	119	151	97
1955–56	115	109	120	154	136	117
1956–57	121	120	137	181	139	124
1958–59	131	137	141	176	159	133·5
1959–60	128	125	153	132	138	130
1960–61	136	128	184	203	122	142
1961–62	137·5	134	173	170	194	145
1964–65*	150	105	200	216	182	158
1965–66*	121	121	197	179	136	132

* Provisional

Three things should be noted. First, the overall rise in production between 1949–50 and 1965–6 is modest. The aggregate average annual

rise is 3 per cent, hardly greater than the present rise in the population (2·4 to 2·5 per cent per year). Secondly, the industrial crops progressed at a relatively faster rate, which shows that capitalist agriculture is developing; but here again, the increase is small. Thirdly, the production of basic crops (foodgrains and oil-seeds) increased more slowly than the overall rate, and was almost exactly parallel to the rise in population.[1]

Agriculture progress has, then, been too slow. (4) The government has been forced to continue importing vast quantities of foodstuffs. Foodgrain imports rose from 1·4 million tons in 1956 to 3·2 million tons in 1958. They continued to rise past 4 million tons, and had reached 6·27 million tons in 1964. They reached more than 10 million tons in 1966 and 1967.

From 1961–2 to 1964–5, the total of foodstuffs imported rose by more than 50 per cent to 24·5 thousand million Rs., or 18 per cent of the total imports against roughly 13 per cent three years before.

There is another particularly serious question. Most of the increase in agricultural production was due to an increase in the land under cultivation and not to higher yields from the same land (although the yield is very poor). (5) This means that Indian agriculture is not yet in a position to make continuous progress. We shall examine later what caused this state of affairs. (6)

It is difficult to compare the Plans' objectives with the results obtained because the statistics used for calculating some of the objectives have been revised. We shall say a few words about foodgrain production only.

According to the First Plan, foodgrain production should have increased by 7·6 million tons or by 14 per cent in comparison with the 1949–50 output of an estimated 54 million tons (45 million tons of cereals). But the new figures put the 1949–50 output at about 57·9 million tons, and the 1955–6 figure at 66·4. The increased foodgrain production aimed at by the First Plan was therefore more than attained (+ 8·5 million tons, or + 15 per cent).

According to the Second Plan, foodgrain production was to increase by 9·2 million tons (original estimate) or by 14·4 million tons (estimate on revised figures); that is to say, by 14 or by 22 per cent. This was the resulting increase. But where industrial crops are concerned, things

[1] The available rations per person are therefore no greater. They have even decreased for the 'pulse', falling to 3·6 ounces per day in 1959 and down again to 1·8 ounces per day in 1964. The corresponding figures for cereals are 13·8 and 13·9 ounces (*E.S.*, 1964–5, Table 1.4).

are different. The main crops for 1960–1 are as follows; they should be compared with the corresponding objectives of the Third Plan.

MAIN CROPS IN 1960–1 AND OBJECTIVES OF THE THIRD PLAN FOR 1965–6 (7)

Crops	Unity	1960–1†	1965–6†	Projected absolute increase	Output in 1965–6 (8)
Foodgrains	million tons	82·0	102	19	72·3(9)
Oil-seeds	million tons	7·0	10·0	3·0	6·14
Sugar-cane*	million tons	11·2	10·0	—	12·0
Cotton	million bales	5·3	7·0	1·7	4·73
Jute	million bales	4·1	6·1	2	4·5

* in raw molasses (*Gur*)
† Adjusted to statistical changes

Given the rate of increase over the ten preceding years and the lack of a radically new agricultural policy, it seemed likely that the above objectives would not be reached. Developments have confirmed this likelihood. Only jute reaches the expected level, and only sugar surpasses expectations. (10)

India is the main exporter of tea, which is one of her largest exports. The output of tea is therefore of some importance, especially to her foreign trade. India's tea production reached 613 million pounds in 1950 and rose to 833 million pounds in 1965–6, which is a 34 per cent rise. This is still a slow rate of increase (world production increased by more than 50 per cent during the same period) and India lost ground both in her production and her world-exports position. The reasons for the losses are too complicated to be set out in detail. Some are related to market problems and technical difficulties, but the main cause of the loss was that a large number of the tea plantations belong to foreign capitalists (mainly British) and that many de-invested by not renewing their plantations. (In these foreign-owned plantations, 44 per cent of the total surface area is covered by bushes planted before 1910, whereas the figure is only 22 per cent for the Indian-owned plantations.) The same foreign groups are developing their East African plantations. Profits as large as 20 per cent of invested capital are being recalled abroad.

Production of coffee rose sharply during these same years, but is still of minor importance in the economy.

There is an increase in crops considered as a whole, but it is too slow and too little; the foreign trade situation is not at all improved in consequence. The balance of exports and imports of foodstuffs (including tea) shows an adverse movement: the positive balance fell from 1·2 thousand millions Rs. in 1955–6 to 121 million Rs. in 1964–5.

Stock breeding is even less favourable, for there is no visible progress in that field.

In 1956 (the last count) the number of bovine cattle, already excessive in 1951, had again increased: there were now 159 million in all, and 45 million buffaloes, male and female. The rise is only 2 per cent—a fall in numbers would have been preferable—and constitutes a deterioration in the stock-breeding situation. As we have said in Chapter I, if the cattle are too many, they are underfed and produce insufficient milk. According to various calculations, the value of milk production in 1953–4 was 9·9 thousand million Rs., whereas the value of animal feed consumed was 17·6 thousand million Rs., leaving a deficit of nearly 7·7 thousand million Rs. However, the market value of animal dung was almost as high as the value of the milk produced. (11)

Lack of energetic measures and the prevalent social conditions explain why there has been no real improvement in the field of stock-breeding. Even so, between 1951 and 1961 milk production from all sources rose from 17 million tons to 22 million tons; i.e. by 29 per cent, which is a little higher than the rise in population.[1]

Very little was spent during the first two Plans to improve stock-breeding (only 490 million Rs.). The Third Plan sets aside 450 million Rs. for stock-breeding, 309 million of which are for milk-producing. (12) But during the first two Plans a new factor has arisen which complicates the situation; it has been made illegal to slaughter cows, calves, and other draught—or milking—animals. Not all, but some, States have passed laws to this effect, influenced by the most conservative religious elements of the Congress Party and evoking Article 48 of the Constitution.

What measures have been taken, or can be taken, to improve

[1] See *T.F.Y.P.*, p. 344. But according to I. Chatterjee's article 'Low Milk Production in India' (*E.W.*, December 4, 1960), consumption fell to 128 g. or 4·8 oz. per person in 1957 (p. 1871). The Indian Council of Medical Research proposes a norm of 280 g. or 10 oz. per day, seeing that most of the population lives on a vegetarian diet.

agricultural production? The question can be answered in three ways; these are social measures, educational measures, and changes in the agrarian structure.

2. SOCIAL CHANGES AND AGRARIAN REFORM

The social changes which have taken place since Independence stem in part from the agrarian reforms modifying legal ties and property rights, although the reforms have had political and social rather than economic objectives.

The old legal system was such a brake on agricultural progress[1] that the changes here certainly helped, and have contributed above all to the expansion of capitalist agriculture. The lack of statistics makes it difficult to assess the effects of the changes, but development seems to have been going ahead much more quickly in recent years. (13)

The change to capitalist farming methods has also been helped by the general trend of the economy, the expansion of the monetary sector and the opening of a new market for industrial crops. The government's economic policy—aids to agricultural or rural co-operatives, new community projects—has also aided the richer peasant classes and accelerated capitalist expansion in rural districts.

The most important and most complex of the measures mentioned above are the agrarian reforms.

The first text on economic and social reform which was adopted by the Congress Party after Independence was a resolution passed in November 1947 by the A.I.C.C. It contained the following passage:

> 'The land with its resources and all the means of production as well as the means of distribution and of exchange should belong to the community and be administered in its own interest.'[2]

When this resolution was adopted, an Economic Programme Committee was formed with Pandit Nehru as its chairman. The Committee submitted a report to the President of Congress in January 1948. Here is what was said in that document on the subject of agrarian reform:

> 'All intermediaries between the tiller and the State should be eliminated and all middlemen should be replaced by non-profit-making agencies, such as co-operatives.

[1] See Chapter 2 above.
[2] Quoted by H. D. Malaviya in *Land Reforms in India*, New Delhi, 1955, p. 79.

> Land should be held for use and as a source of employment. The use of lands of those who are either non-cultivating landholders or otherwise unable for any period to exercise the right of cultivating them, must come to vest in the village co-operative community. . . .
>
> The maximum size of holdings should be fixed. The surplus land over such a maximum should be acquired and placed at the disposal of village co-operatives.'[1]

This report still leaves much unexplained, but is more explicit than the 1947 text.

However, no steps of any importance were taken on agrarian problems in 1948 until December, when a new committee—the 'Committee for Agrarian Reform'—was set up at the demand of the 55th session of the Congress Party. Its chairman was Shri J.-C. Kumarappa. At this same session, a fairly radical resolution was adopted on agrarian questions.

In July 1949, the Kumarappa Committee submitted a new report to the President which was more detailed than the preceding ones. It restates the principle that the land should belong to those who work it, proposes that the hiring out of land should be stopped except in unusual circumstances, and demands 'full occupancy rights' for those who have worked their land continuously for six years or more. It suggested that the tenant should be able to buy the land he works at a reasonable price.

The report also recommends that a ceiling be fixed to the size of agricultural holdings, and proposes a figure for the ceiling equivalent to 'three family holdings'.[2]

Although this text is more detailed than the previous reports, it is less progressive, particularly in that it asks the 'tiller' (he who works the land) to *buy* the property. This rules out any application of the principle that 'the land should be given to those who work it'. At the same time, this text gives a more concrete idea of what is meant by the maximum size of holdings.

At the beginning of 1950, the Congress Party leaders set up an Economic Planning Sub-Committee which submitted a Memorandum to a Conference of Chief Ministers and Presidents of the Congress Party's State Committees in April of the same year. A new resolution was

[1] Cf. *ibid.* pp. 80–81.
[2] Since a 'family holding' as the report understands the term can be one where hired labour is employed, the ceiling equal to three family holdings is quite high: between 30 and 50 acres af good irrigated land.

passed on 'Agricultural and Agrarian Reforms', more conservative again than the preceding texts.[1]

The agrarian question was thus passed from committee to sub-committee and from sub-committee to conference, none of which bodies had authority to implement the resolutions adopted. The Congress Party which alone had this authority, was divided between opposing interests within the Party itself. This explains its hesitations.

Texts of the same kind were voted in the following years; the 1951 'Electoral Manifesto', for example, together with many other resolutions.[2] But it was impossible—and undesirable—to go on stalling indefinitely.

For political, social, and economic reasons it was essential to adapt the colonial agrarian structure so as to increase agricultural productions and to make at least some of the peasantry feel that the Government was doing something for them. After 1950, the different States began to pass agrarian reform laws. We cannot analyse them all; we shall point out their guiding principles and give one or two specific examples.

The first difficulty is that the laws do not completely do away with the innumerable privileges which the big landlords had enjoyed. Instead, they are aimed at reducing their extent or changing their applications. The second difficulty is that the laws proudly state 'radical' principles and then proceed to nullify them. A third difficulty is that the laws themselves differ in content; in some States they alter almost nothing, in others there are far-reaching changes.

Such complexity and diversity makes it difficult to give a simple outline of the measures taken. First of all, one must distinguish between two types of law: the one tending to eliminate the worst forms of 'feudal' exploitation (applicable to certain regions only); the other tending to eliminate exploitation by big landowners in general.

The first type of reform mainly concerns the regions where the

[1] *Ibid.* pp. 89–90. See also Bhowar Sen, *Indian Land Systems and Land Reform*, Delhi, 1955, pp. 81–2.

[2] It is not difficult to see why the Congress Party did not associate the peasantry with any of the changes in agrarian relations. The changes were made from a bureaucratic point of view, using State machinery. This is a very different method from that used as early as 1954 by the Congress Socialist Party and the communists, who encouraged popular agitation and created a peasant organization (*Kisan Sabha*) to combat the big landowners' demands and secure united action in the campaign against rent paying.

After Independence, the Congress Party showed increasing hostility towards peasant organizations.

Zamindari system or its equivalents existed; the second type is applicable to all regions. In both cases, the object of the reforms was, first, to reduce the hold of big landlords and 'middlemen' on the peasant who worked the land; secondly, to give the peasant greater economic security. His insecure economic position made agricultural development impossible.

The reforms were also aimed at reducing the effect of 'feudal' and 'semi-feudal' relationships in rural districts and increasing the power of independent producers, of co-operative production, and of capitalist relations. There is an implicit understanding that capitalist production is the only way to increase the productive forces, and that only capitalist methods would create a social category which would constitute, by its activity, a rural bourgeoisie. Unless such a class arose, the urban bourgeoisie, however rich, would remain terribly isolated in hostile surroundings.

The Elimination of Intermediaries

One of the first aims of the agrarian reforms was to eliminate the middlemen where they existed, which was mainly in the *Zamindari* regions.[1] Official documents suggest that the system of middlemen had practically disappeared between 1947 and 1956.[2] This would have meant that a veritable agrarian revolution had taken place, giving the land of former *Zamindars* or other intermediaries back to the peasants.

The true situation is much more complicated. It is true that in all States where imtermediaries existed in large numbers, legislation had been passed to eradicate them. But these were only reforms in theory, and the situation of the peasantry had not improved very much; in some places, it had even deteriorated. We can see how this happened from the agrarian legislation in Uttar Pradesh, one of the largest *Zamindari* States. (14)

The 'Uttar Pradesh *Zamindari* Abolition and Land Reform Act', adopted at the beginning of 1951 but not ratified by the Supreme Court until the 5th of May 1952, declared that *Zamindars* and other intermediaries should be dispossessed of their lands,[3] which should be handed

[1] See Chapter 2 above.

[2] The report on how the First Plan worked declares that '. . . at the end of the 1st Plan intermediaries had been abolished almost entirely throughout the country, but a few pockets remain. . . .' (*Review of the First Five-Year Plan*, p. 315.)

[3] In fact, the dispossession was fairly theoretical, as is explained below.

over to the State upon payment of compensation. (15) The same law defines a new system of land tenures on the *Zamindari* territory. Four categories of tenures were created, two of them—the *Bhoumidhars*' and the *Sirdars*'—particularly large. The *Bhoumidhars* have the most powerful tenures. They cannot be turned off their lands on any pretext whatever. They alone have the right to sell (and therefore to mortgage) their lands. They alone have the right to use their lands for non-agricultural purposes; the State has no other right than to impose a land tax on this sort of holding. The *Sirdars* have less powerful tenures; they cannot sell or mortgage their lands; they must use them for agricultural purposes only. Although their rights are permanent or hereditary in principle, they can be expelled in particular circumstances.

But who comes under the legal appellation of *Bhoumidhari* tenures? *The former* Zamindars *and other intermediaries, and they alone.* They do not have these rights on all their land, but on what is supposed to be under 'personal cultivation'. The definition of this term is so broad, and the real power of the intermediaries so great, that most of them have become *Bhoumidhars* holding seven million acres of land. Their rights are reduced only on the land where the middlemen were tax-collectors and not landlords. The tenants of such land become *Sirdars* and the tax formerly paid to an intermediary is now paid directly to the State.

In other words, the new *Sirdars* are those former agricultural tenants *who already held more or less permanent rights*. The others, whose rights were much less important but who worked the land themselves, have been given one of the two other inferior tenures which we shall not describe in detail.

The result of the changes is that most of the *Sirdars* are in exactly the same position as before. However, all *Sirdars* have the right to become *Bhoumidhars*—that is to say, the right to be true proprietors, although the property still belongs in first instance to the State—if they care to buy the privilege from the State.

If the former tenant buys *Bhoumidhari* rights, he pays a land tax (or 'land revenue') half as high as that payed by *Sirdars*. Until now, few *Sirdars* have seen fit—or have had the financial means—to buy the rights. (16)

The suppression of *Zamindari* rights is common to most other States where the same or a similar system existed. (17)

Kashmir and Kerala are the only two States where agrarian reform has been more ambitious than in Uttar Pradesh. In Kashmir, the law

suppressing big landowners transfers the land to the real cultivators, defining the latter as those who till and work the land 'with their own hands'. This is an important detail, for *most States consider the cultivator as he who finances production*, even if he does not personally direct cultivation. The Kashmir legislation seems very radical in its assertion. Kashmir is an exception among the States because of its political situation.

But even in Kashmir, cropsharing has not been legally abolished for those who hold less than 22 acres of land. The cropsharers are still forced to give up about 50 per cent of their gross produce.

In all the other States, agrarian reform has followed the Uttar Pradesh pattern or has been even less progressive, as in West Bengal, Rajasthan, Madhya Bharat, Bihar and Orissa. The main result of agrarian legislation has therefore been to bring tenants into a direct relationship with the State to which they pay land revenue, but to leave the intermediaries with all the lands which they cultivate 'personally' (whether they employ hired labour or cropsharers, or they let out their lands to tenants without permanent rights).

In some States, a ceiling has been fixed as to the amount of land a former intermediary can own, but the ceiling is so high that very few of the intermediaries are affected. In any case, it has been possible for them to sidestep the law by passing over part of their land to other members of their families.

What, then, is the real effect of the agrarian laws 'eliminating middlemen?'

First, they have not suppressed big property, but have limited it and have substituted a system of *usus*, *abusus* and *fructus* for a feudal system.

Secondly, the legislation *has given the richer peasants an opportunity to become landed proprietors* (by buying *Bhoumidhari* rights). It has paved the way for rural capitalism; the big landowners and the rich peasantry will form a new and dominant class of rural capitalists.

Thirdly, it has increased agriculturists' *legal security* (18) by curtailing the excessive power of the feudal landlords.

These three factors are to a certain extent favourable to an expansion of capitalist agricultural production.

Regulation of Rents

Laws other than those above have been passed which are also part of agrarian reforms, and which also seek to increase the peasant's legal

security. These are very complicated, and we shall try to summarize their essential points.

To begin with, the elmination of intermediaries has, in theory, simplified things for those who had to legislate on rents. But one must realize that the former hierarchy of intermediaries has not disintegrated (see also the conclusion to this section). As the *Zamindars* have in general retained immense properties and not just what might be considered as truly under 'personal cultivation', the old system of agriculture continues to exist.

D. Thorner, describing the situation in Bihar after the 'abolition of *Zamindars*' (by regulations much like those in Uttar Pradesh), writes that it is not unusual to find estates of 500, 700 and even 1,000 acres. 'One also finds that after the abolition of the Zamindars the old structure persists: landlord, occupancy raiyat, non-occupancy raiyat, under-raiyat, and bataidar (cropsharer).'[1]

However, in many States, such as Uttar Pradesh, it is theoretically forbidden to let out land; only 'personal cultivation' is authorized, but this means *in practice* cultivation by cropsharers on behalf of the landowner, which means in turn that the system of cropsharing (economically inferior to tenant farming) is therefore permitted. In other States (Bihar, Bombay, and the Punjab, for example) tenant farming and cropsharing are both allowed, but are controlled by law. Such laws very often complement legislation already existing before Independence. They are intended mainly to give tenants greater security of tenure and also to fix a maximum limit to the demands which can be made on tenants.

Security of tenure is increased by temporarily excluding eviction or by giving new rights to the tenants (resulting from the abolition of middlemen); or else by fixing a maximum limit to the area a landowner can use for 'personal cultivation', in the widest sense; or finally by fixing a minimum amount of land that can be held by the tenant and cannot be reclaimed by the proprietor for 'personal cultivation'. (19)

The maximum rent that can be demanded by a landowner varies in each State; in West Bengal the cropsharer must hand over 40 per cent of the gross produce,[2] although he usually provides his own means of

[1] D. Thorner, *The Agrarian Prospect* . . ., p. 34.

[2] Formerly, a third went to the landowner, a third to the producer and the remaining third was shared between them according to which of them furnished

production apart from the land itself. In the Punjab, the maximum is now one-third of the gross product; in Bihar, seven-twentieths; in Bombay, the rent in kind is fixed at a third of the gross product of non-irrigated land and a quarter of the gross product of irrigated land (although monetary rent is not controlled), in Madras (now called Tamilnad), the rent is fixed at $33\frac{1}{3}$ per cent and 40 per cent of the gross product.

This part of agrarian reform is not much more than a 'statute of cropsharing and tenant farming'. Some concessions are made to the peasant workers, in theory at least, but their situation has changed even less than the laws have.

Unfortunately, there are few documents to give us an idea of the difference between the theoretical position of the peasants and their actual position. Apart from the works by David Thorner (already quoted), one of the best studies is that of V. M. Dandekar and G. J. Khudanpur, made under the aegis of the Gokhale Institute of Political Science in Poona. The author analyses the land-tenure legislation of the State of Bombay in 1948. This is interesting, because there were no big landowners in Bombay and the social differences in the rural areas were not so great as in the rest of India. One could have expected the legislation to have been implemented with greater care. But the author found that the statutory rents were almost entirely ignored; most cropsharers still gave half of their produce to the landlord despite the new laws; nor was there any secret about this.

The authors of the report conclude that 'in practice the law does not exist'.[1] Various enquiries in Tamilnad have shown that the great majority of the peasants are completely unaware that new laws have been passed. This is the case in most States.

Agrarian laws have not followed the lines suggested by the Planning Commission when the First Plan was being drawn up. This is why there were new recommendations on the same subject in the text of the Second Plan. We shall not go into the difference between the two, except to say

the means of production. The new law is not necessarily more advantageous to the cropsharer. What happens (according to R. Dumont) is that the cropsharer often gives two-thirds of his produce to the proprietor on the pretext that the latter provides a handful of fertilizer.

[1] V. M. Dandekar and G. J. Khudanpur, *The Working of the Bombay Tenancy Act 1948*, Poona 1957 (quotation from p. 187). There is an excellent résumé of the report in D. Thorner's article: 'Land Reform in Bombay; An Agonizing Appraisal' in *E.W.*, January 1958, pp. 117–19.

that the Planning Commission defines 'personal cultivation' in terms of the person who accepts 'the whole risk' for the crops, provided that he or a member of his family supervises cultivation. But he need neither live on the land nor take active part in the work. (20) It is obvious that all agricultural capitalists will come under this definition. But we are at a far remove from the slogan: 'Give the land to the tiller.'

The *Mirasdars* (rich landowners of Southern India) have been vindicated by the Planning Commission's definition. They protested against the demand for the 'personal' cultivator's presence on the land. At a conference in April 1955, they declared that such a demand was a new, strange and absurd condition.[1]

The Planning Commission seems to be critical of the agrarian legislation existing in 1955–6, which usually denied the rank of tenant to cropsharers. The Commission holds that they should be allowed this rank.[2] If they were, it would give them some security of tenure and they would no longer be completely at the mercy of their landlords.

The Planning Commission set out recommendations of the same sort in the text of the 3rd Plan and in the Mid-term Appraisal of November 1963. The situation had obviously not changed. In the Memorandum to the 4th Plan (October 1964) the same points are repeated and it is stated that the laws were not being applied, or that they were being applied very tardily. The reasons given are the lack of solidarity among the peasantry the lack of records of rights in some cases and the numerous 'informal' leases. (21)

In fact, the legislation has still been of little advantage to peasant workers.[3] K. N. Raj gives a fair survey of the situation. 'A large proportion of the total area cultivated is still under tenancy and the rents are generally much higher than the legally stipulated ceilings. Land legislation has had in fact in many regions the effect of driving underground some forms of tenancy and promoting informal and oppressive cropsharing arrangements since landlords are now more afraid of rights accruing to tenants recognized as such. The high pressure of population on land makes it possible for landowners to impose such arrangements on the landless agricultural population, and both the sociology of rural areas and the balance of political forces in the countryside make it

[1] *The Hindu*, April 24, 1955.
[2] *S.F.Y.P.*, p. 187.
[3] Many have been expelled from their lands. On the other hand, the richer peasantry have been clever enough to make use of the agrarian laws.

difficult for the latter to secure in this kind of situation the rights which they are entitled to by the letter of the law.'

In the irrigated and more fertile areas of the country, rents are often not only as high as 50 to 60 per cent of the gross produce (sometimes more) but, on account of the prevalence of cropsharing and the resulting insecurity to tenants, changeable from time to time. As was pointed out by Mr. Wolf Ladejinsky in a report to the Planning Commission (which unfortunately the Commission has still not considered it necessary to publish), 'there are not even complete records of land holdings in many regions of the country and oral leases can therefore not only flourish but there is no way in which any kind of administrative check-up is now possible'.

To sum up, agrarian legislation of this kind has not benefited either agricultural workers or cropsharers, despite its content; the 'tenants-in-chief' who already held stable rights and who form part of the upper class of the population are the only ones who have gained. This class usually does not take part in agricultural work and is already, or will become, the rural capitalist class. It becomes so when it assumes the financing and the risks of agricultural production; that is, when it employs hired labour using their employers' means of production. It also becomes a capitalist class when it invests capital in commerce and in moneylending. These are still the most favourable spheres of investment, which explains why it is more correct to speak of a 'rural capitalist class' than of an 'agricultural capitalist class'.

In nearly all cases, agrarian legislation has strengthened the rural upper classes' positions. Its members were hitherto dependent on the big landlords but now their tenures are more secure, and if they are not already the equals of former landlords they can buy their equality. The process has not been the same in all regions, however, and has not always been as simple as we have made out; conflicting interests have often brought complications. Contradictions have arisen—for example, through the pressure of big landowners, who have obtained a right to reclaim land giving them the advantage over their tenants.

This right has caused many evictions. It is counterbalanced in principle by the fact that the proprietor is obliged to see to the working of his land and can no longer live on the rent alone. This again is a step in the direction of rural capitalism.

Another contradiction has arisen over cropsharers' opportunities of acquiring new rights. Until now this has generally remained only a

possibility; but it is an obvious threat to the upper rural classes. The fear of this had led some landowners to evict cropsharers (22) and to use hired labour. The trend towards capitalist farming methods is thus accelerated, although some cropsharers are deprived of their work and their means of subsistence. This is an important factor in the development of rural capitalism.

The various reforms have, therefore, harmed and not benefited the cropsharers. In most cases, their security of tenure is no greater, and the vague possibility of more security has even caused a reaction against the cropsharers, which has had unpleasant effects.[1] The legislation over the amount of produce payable to the landowner has usually confirmed the *status quo*; when it has been slightly to the cropsharers' advantage, they have seldom been able to get the law enforced.

Semi-feudal conditions are still prevalent in a large sector of Indian agriculture, which means that the cultivator has little interest in land improvement as an investment (even if he had the financial means) because his profit from such operations would be little. Nor will he use fertilizers, because he would have to pay for them and the landowner would collect at least half of the eventual surplus.

Thus, although the rural upper classes are now in a stronger position, and although big landowners have suffered some loss of power, the movement of Indian agriculture towards capitalist methods of production is going ahead at a very slow rate. There is definitely some progress in this direction, but it is difficult to measure the rate of change with any precision as statistics are incomplete. (23)

It is also difficult to judge exactly how the social and production conditions of different groups have changed as a result of the agrarian reforms; local conditions vary to a great extent, and the social relationships are highly complex.

We can produce only the comments of an observer on a rural district in Uttar Pradesh as an illustration of how agrarian reforms and other factors, such as the development of transportation, have taken effect.

In the village of Madhopur in 1951, 50 families of *Thakurs* owned all the land from which 250 other families made their living. After the reforms, the *Thakurs* lost the lands which were cultivated by 'permanent' tenants. The *Thakurs*' losses were not great. Those who benefited were

[1] Another result is that landowners give new land to their cropsharers so that there can be no question of 'acquired rights'. This practice has an adverse effect on land improvement.

mainly the *Noniyas*; the poorest inhabitants of the village, the *Chamars*, gained practically no advantage at all from the changes.

The observer also notes that the possibility of limits being fixed to the size of holdings caused the *Thakurs* to look for investments other than acquisition of land. They spent more on educating their sons to enable them to find work outside the village. They also invested in land improvement (irrigation canals, levelling etc.) and in commercial activities (which would not have been the case before): creating a co-operative with the aim of building a sugar refinery etc. (24)

Here is a typical example of how some of the landowners have become rural capitalists under the pressure of agrarian reform.

One should not be tempted to generalize on the strength of this isolated example. The conditions are not always like this in Northern India, and even less so in Southern India. But it shows the trend of agricultural development since the reforms.

On the whole, the ancient hierarchical structure, the economic insecurity, the system of cropsharing, and the investment of rural saving in non-productive lending and land purchasing are changing very slowly. Consequently, the effect of agrarian reforms on agricultural production is small, although positive. The Indian government is looking for other means of giving new incentives to agriculture. Efforts are being made to consolidate holdings, to generalize some new agricultural methods, to fix ceilings to the size of land properties and holdings, and to develop agricultural co-operatives. The first two of these measures could have important consequences, but we shall not go into further details because the results to date are unimpressive, particularly as far as the dissemination of new techniques is concerned.[1] But the other two measures may have a considerable effect on social conditions of production, and must be examined closely.

Limiting the Size of Land Properties and Holdings

The idea of setting a maximum limit to land properties or holdings has often been brought up at the sessions of the Congress Party. But nothing much was done during the First Plan; the resolutions adopted were never put into effect.

Thus, although the Congress Party's session of December 1948 stated

[1] The Planning Commission's recommendations on certain agricultural practices (cf. *S.F.Y.P.*, pp. 200–7) have not yet been implemented. See the *T.F.Y.P.*, p. 234.

the principle of a maximum limit, the Uttar Pradesh Zamindar Abolition Committee (whose Chairman was at the time Pandit Pant, Chief Minister of the State) declared in a report that no maximum limit should be fixed to the amount of land possessed by a landowner or tenant. (25) Eminent members of the Congress Party with important government posts were simply turning their backs to the resolutions adopted in the Party's plenary sessions.

This attitude did not change during the First Plan. The amount of legislation on 'ceilings' put through during these years is not very great.

On the other hand, it seems undeniable that the existence of such legislation (26), or the prospect of its being adopted, deterred landowners and rich peasants from increasing the size of their holdings and led them to place their savings in new means of production (or in non-agricultural activities), which, as we have said, was favourable to the development of capitalist agriculture.

Little effect was produced on the agrarian structure by laws passed in some States limiting any increase in the surface area of estates and holdings (by forbidding the sale of land to those who already held more than was legally permitted).

The Planning Commission repeated its recommendations for the fixing of ceilings in the texts of the Second and Third Plans, which shows that five or ten years passed without any appreciable action in this field. The Commission also repeated that great care should be exercised; the same warning had served as an excuse for doing nothing during the First Plan.

This was the 'legislative stagnation' that Pandit Nehru tried to overcome in January 1959 by tabling a motion on agrarian problems in general and on 'ceilings' in particular at the Congress Party's session in Nagpur.

The motion recalled the decision to fix ceilings and demanded that it be implemented by the States (together with the laws directed against intermediaries) before the end of 1959. It also called for development of agricultural co-operatives, for 'fair prices' to be fixed for agricultural produce, and for the States to take part in food and grain commerce. These two last points are the only new ones; the others had already been set out in countless resolutions. The Nagpur resolutions caused quite a stir, but finally came to no more than had the previous ones. Some States passed laws on the lines suggested, but without affecting the agricultural situation to any appreciable extent.

The laws resulting from the Nagpur resolutions fixed ceilings of 30, 40 or 80 acres, and sometimes higher. Their practical effect was precisely nil, especially as there were long delays before the laws came into effect, which allowed landowners to find ways of getting around them. In West Bengal, a ceiling of 25 acres was fixed in 1955. This should have freed about 600,000 acres of land, but because of the delay in application only about 100,000 acres were affected.

Except for Kashmir, only the State of Kerala passed more effective measures, fixing a ceiling of 15 acres and legislating against rigged land-transfers. The Kerala government was under communist leadership.[1] But when the government was dissolved, the President of the Republic refused to ratify the law fixing the 15-acre ceiling. (27)

The Commission for Agrarian Reform in the Punjab has made a report on the situation in that State. It finds that, first, the fixing of a 30-acre ceiling on personal holdings has freed only 411,843 acres of 'surplus' land, i.e. 2 per cent of the land under cultivation in the Punjab. Only 3 per cent of the landowners were affected. Secondly, the tenants who received grants of land had to pay indemnities. Thirdly, only 25 per cent of 'surplus' land was effectively distributed, mainly because the number of conditions to be fulfilled before anyone could qualify for a grant ruled out most of the tenants. Even so, 150,000 tenants who had acceptable claims to land-grants had not been given any land.

Fourthly, much of the land above the imposed ceiling had been transferred in one way or another to the owner's relatives or friends. Fifthly, the cost to the Punjab Government of carrying through the reform was greater than the value of the surplus land acquired. (28)

But although the laws have not been effective, nor the changes great, a new and incontrovertible step has been taken. A new process has begun, set off by the needs of a rural population living in social conditions which were steadily deteriorating. As the process continues, the security ratio of landed property falls and the richest classes become steadily less inclined to buy up land. Although they still do so, one can say that they are now using a larger part of their financial resources for other types of investment; land improvement and agricultural equipment[2]

[1] The Kerala Agrarian Relations Bill is analysed in the annex at the end of the chapter.

[2] In 1951, 8,000 tractors were being used, in 1956 nearly 17,200, and in 1961 30,000. Use of fertilizers has shown a particularly large increase. (*v.* part 3 of this chapter.)

benefit from the new flow of capital[1] provided by peasants and landowners. Holdings well equipped with machinery and employing hired labour have become more numerous.

Here again one can see the beginnings of a new agricultural capitalist class—which was what the government really had in mind, since the ceilings were not low enough to provide livings only for those who worked the land. The present limits divide the land up into lots big enough to support landlords or capitalists as well as their workers.

The present trend towards agrarian capitalism certainly has a favourable effect on agricultural production. On the other hand, the size of the holding permitted has not solved the essential problem which was the reason given for fixing ceilings: the tragic problem of peasants without land or with too little land for them to make a living. In fact, the situation has grown worse: evictions have multiplied; land is still in the hands of a small group; and capitalist methods of agriculture mean a smaller working force per unit of land than in the more primitive systems of agriculture practised hitherto.

Agrarian reform has not solved India's two main problems: the social problem caused by massive rural underemployment (29); and the economic problem of how to use the enormous productive potential of the unemployed working forces for the good of the people. The only way to change the state of the masses from poverty to growing prosperity would be to put this unemployed potential into action. But the social structure of the country will have to be changed before this can be done.

The efficacy of the reforms undertaken so far has been limited by a desire to respect the interests of the richer rural classes, with whom the Congress Party and the Indian bourgeoisie are in close touch. Both agrarian reforms and the development of co-operatives show the same defects.

Agricultural Co-operatives

The Congress Party has often mentioned the possibility of co-operatives when discussing agrarian problems. The idea has been suggested as a means of putting the unemployed working forces into the economic circuit. Although the example of China was an obvious incentive, even before the Chinese experiments Congress had declared that it was desirable to create cultivation co-operatives and in particular agricultural workers' co-operatives (which would be given the surplus land above the envisaged ceilings). The Nagpur Conference repeated these ideas, as it did many others.

[1] Of course, some of the newly freed capital is used for commercial and industrial investments, as we have said above. The tendency to free capital started before independence, and has accelerated by the reforms. On this point see V. G. Rastiannikov and M. A. Maximov.

The idea of co-operatives had already been considered in domains other than agriculture; for example, credit co-operatives and services co-operatives had been suggested.

Despite the importance officially given to the development of co-operatives, there has been little progress in this field since Independence.

Farming Co-operatives

Only a few thousand farming co-operatives exist; their importance in relation to India's 550,000 villages is not very great.

It is even difficult to say whether they should be considered as model institutions. Some of them exist only on paper and others are not exactly producers' co-operatives either in their constitution or in their methods. First, some of them are co-operatives of rich peasants who find it advantageous to form groups, but who do not work their own lands, employing hired labour. These are really capitalist agricultural societies and, as such, they can be of use in disseminating more advanced cultivation techniques. There are also 'farming co-operatives' which group members of one family, who in this way escape regulations limiting the size of holdings; this kind of co-operative also employs hired labour. Some of their members may be 'absentee' landlords.

Leaving aside these two types of false co-operatives, there are some composed of small cultivators and others composed (mainly through government initiative) of agricultural workers who have been given land cleared by the State on the condition that it be worked communally. Unfortunately, this sort of land is all too often of poor quality—too dry or too swampy—and the unimpressive results it gives detract from the prestige of the co-operatives. Also, because they are co-operatives set up by government order, they do not reflect popular feeling as well as do other kinds.

Finally, very few farming co-operatives are true co-operatives like those which have been formed by small cultivators who work their own lands, and a few others formed by agricultural workers who have been

given good land, or (in exceptional cases) rent land. The example set by these co-operatives is not so striking as it could be because they are too small and too poor. They are unable to derive full benefit from their co-operative organization.

Results, on the whole, are disappointing. It is not surprising that little of the 4 million Rs. provided for co-operative development by the First Plan was used.

The Second Plan set out various recommendations for the development of farming co-operatives, but progress was still very slow. The Third Plan was less amibitious. It declared that 3,180 farming co-operatives should be created and grouped into 318 projects. This figure may be reached, but the development will still be almost negligible, uniting 60,000 agriculturists on 360,000 acres

The reason why there is such a slow rate of development is simple: the richest cultivators have no particular interest in joining this sort of organization—and if they do the resulting groups are (as we have said above) false co-operatives. On the other hand, the agricultural workers and the poor peasantry possess little which can be used communally. Only the middle-class peasantry could use co-operatives to their advantage, but they have been prevented from doing so by numerous practical difficulties; in particular, by the fragmentation of their land and by the lack of effective technical and administrative aid.

Other Co-operatives

The other sorts of co-operatives used by the agricultural population have developed more quickly and in greater numbers.

One must bear in mind that the co-operative movement is not of recent origin. There were already 105,000 agricultural credit societies in existence when the First Plan went into action. By the end of the First Plan, their numbers had risen to 160,000; they continued to rise, reaching 212,000 at the end of the Second Plan. The credit societies had nearly 8 million members in 1955–6 and 17 million in 1961. In 1951 their loans and advances totalled 229 million Rs.; in 1955–6, 502 million Rs. (30); in 1961, 2,000 million Rs. (31) In 1963, credit societies had 23 million members and distributed 2·7 million Rs. in loans and advances (32). The Third Plan estimated that in 1965–6, co-operative credit societies should have 37 million members and distribute 5·3 thousand million Rs. in loans.

These figures show that the credit movement has some importance

in the country. Its influence is particularly great where the co-operatives are most concentrated: for example, in the States of Bombay and Madras. However, the Third Plan's figures are very optimistic.

Other agricultural co-operatives—marketing and distribution societies—are less numerous but are certainly active. They are to be found mainly in the States of Bombay and Madras, Andhra, the Punjab and Bihar. More than 75 per cent of the chemical fertilizers used are distributed by these co-operatives. They are also important factors in the distribution of selected seeds. In some States, they have the legal monopoly of sugar-cane marketing and sometimes take part in the agricultural processing industries (those of sugar, oil, jute, and cotton, for example). Their turnover at the end of the Second Plan was about 2 thousand million Rs.

But the level of development of co-operative societies should not be overestimated. In the first place, the total sum of loans and advances made by the credit co-operatives after their recent expansion is estimated to be only 5 to 10 per cent of the peasantry's total debt. The professional moneylenders (and, to an ever-increasing extent, the rich peasants) still dominate the agricultural credit system, and the co-operatives play only a minor part. The Rural Credit Survey demonstrated the working of the system a few years ago, and there has been little change since. In the second place, the expansion of co-operative credit societies has been financed almost entirely by government institutions and by the Reserve Bank. The latter underwrites about half of the loans made by the credit co-operatives. Members' deposits are only 20 per cent of total loans. The co-operative structure masks what is really a State agricultural credit system.

Everything tends to confirm that it is the richer peasantry who belong to the co-operatives and who benefit from these loans. They do so because it is they who control the co-operatives and they alone who are rich enough for the co-operatives to risk lending to them.

It sometimes happens that pseudo-co-operatives shelter the traditional moneylender (who can acquire funds in this way at low rates of interest) and merchants or rich peasants engaged in moneylending or commercial activities. (33)

Thus the co-operative movement's principal use is to serve as a means of distributing public funds, mainly to the richer peasantry. But this does not prevent the richer peasantry from using moneylenders, nor the other classes of peasants from sometimes obtaining loans from the

co-operatives (mainly in the form of advances on the security of their harvest).

The situation we have described has serious economic consequences. Since most of the land is cultivated by cropsharers and poor peasants who cannot afford to borrow from the co-operatives to buy seeds and fertilizer, the funds destined to increase production have little effect.[1] The other types of co-operatives are faced with the same difficulty, but on a smaller scale for the moment, as they are less developed than credit co-operatives. It is always the richer peasantry which benefits most. This is not simply because their social position gives them an advantage, but also because it is they who buy and sell agricultural produce.

The other peasants produce just enough to live on or else, if they have a surplus, it is too small to make it worth their belonging to a marketing co-operative.[2]

In some regions—especially where commercial crops are grown—and in some particular cases, the average peasant does make use of the co-operatives. But for the moment, this is the exception rather than the rule.

The great majority of the peasants live at subsistence level, and the different types of co-operative are of no use to them. The development of co-operatives may be of great importance to the richer peasantry. If Indian agriculture develops along capitalist lines, the co-operatives will also have to expand. But just as agrarian reform met with strong opposition from the landowners, so the development of credit co-operatives will come up against the resistance of traditional money-lenders (merchants and rich peasants).

To conclude this brief survey of social changes in rural India since Independence, we should like to point out the main social and economic consequences of the measures intended to promote co-operatives, and of agrarian reform in general.

1. The most harmful effects of feudal and semi-feudal relationships have been eliminated but the landowners are still a major force.

[1] Advances on the strength of future crops are not practicable when the holding is below a certain size, the amount of the crops marketed being too small to be used as a security. Most holdings therefore have to borrow from moneylenders, who have their own methods of ensuring repayment.

[2] Another difficulty is that the producer must bring his goods to the marketing co-operative; this presupposes transport facilities. The merchant buys direct from the producer.

2. The richer peasantry, who already had more or less permanent tenures, have been given greater freedom from pressure by their landlords and they are able to increase their holdings (particularly by buying up 'surplus' land formerly belonging to the big landowners).

3. To a certain degree the reforms tend to transform big landowners into agricultural capitalists. This paves the way for the present move towards rural capitalism in India.

4. Likewise, the new conditions help to promote a changeover to capitalist methods on the richer peasantry's holdings; the employment of hired labour and the ploughing back of some profits into land improvement, for instance. Co-operative development also helps this class to escape exploitation by moneylenders and merchants. This again makes for a slow development of rural capitalism among the peasantry.

5. The beginnings of a new way of thinking in rural districts, and the threat of change contained in the proposed agrarian reform, are causing the landlords and tenants who let their lands out to cropsharers to change over to a system of hired labour.

6. Conditions among the poorer classes of the peasantry (agricultural labourers, cropsharers and peasants with little land) have remained stationary or have deteriorated. Large-scale evictions and more difficult conditions of employment explain why the situation has worsened in some areas.

At present it is impossible to estimate the consequences of the agrarian laws with any precision or to say exactly how the social groups have changed in rural districts. Nor can one measure the new distribution and utilization of agricultural income, although there have certainly been alterations in this field.

As we have seen, the main consequence of agrarian changes has been to promote a slow expansion of capitalist agriculture.[1]

This expansion is the basis of some technical advances which seem to be at the source of a weak but real development of new productive forces in Indian agriculture. But this kind of expansion calls into play

[1] This was not exactly the object of the changes. The 'principles' laid down by the Congress Party and the Planning Commission could be applied even more vigorously; the present changes result from a more conscientious application of these 'principles'. A stronger line of action could have an important effect on the poorer peasantry's conditions; the proof of this lies in the Kerala Agrarian Relations Bill. Even so, such measures cannot be put into effect without united action on the part of the peasantry itself.

the vast, unused potential constituted by the Indian peasantry; that is its negative side.

3. TECHNICAL MEASURES INTENDED TO INCREASE AGRICULTURAL PRODUCTION

Technical measures have been taken in many fields. Some are intended to ease water problems, others to increase the amount of land under cultivation or to increase use of selected seeds and fertilizers.

Irrigation Projects and Water Conservation

The Planning Commission attached great importance to improving irrigation, and the Five-Year Plans reflect this preoccupation.

At the start of the First Plan, India possessed about 40·8 million acres of irrigated land, 25 million acres being supplied by large and medium scale projects.

The First Plan anticipated a doubling of this surface area in 15 to 20 years. To be more precise, it put the surface area to be newly irrigated between 1950–1 and 1955–6 at more than 16·75 million acres. The Second Plan proposed an increase, setting a target of 19 million acres. These are large-scale projects.

The results have been impressive, but do not reach the targets fixed. During the First Plan, 6·5 million acres were prepared for irrigation, and 3 million acres actually irrigated (in terms of net surface area). During the Second Plan the corresponding figures were 7·25 million acres and 6 million acres (although the latter estimate seems rather high). The total increase of irrigated surface area due to large-scale irrigation works is therefore about 13·75 million acres of land prepared for irrigation and 9 million acres of land actually irrigated in the space of ten years.

To this last figure must be added the 19 million acres of land newly irrigated by small projects. This is a very rough estimate, because part of this figure relates to irrigation works which have been either repaired or restored when they already existed, and no new land has in that case been brought under irrigation. (35) According to the Third Plan, the amount of net irrigated surface area rose to 70 million acres in 1960–1. Moreover there is every indication that some of the land actually irrigated does not in fact benefit from irrigation. (36) Professor Dumont (37), who visited a number of big irrigation works in 1958, observed that often only the main canals existed, with no branch canals to take the

water through the fields. Where the branch canals have been dug, the system is not very efficient; levelling is often poor, and there is no satisfactory system of banking.

As well as these technical failings, there are some social difficulties; generally the two go together. The minor works (branch canals etc.) may lag behind the major ones because of opposition from private property or because the land is divided up into a large number of strips. And how the water is shared often depends on the social influence of the agriculturists concerned, the richest often getting a more regular and more plentiful water supply. The others lose interest, and there is no collective effort to keep up the irrigation network. (38) Under-utilization and unequal distribution of the water supply are common.

If the Third Plan's estimates had been fulfilled, the irrigated surface area would have increased by 80 per cent in 15 years. But past results made this seem unlikely.[1]

It is difficult to say how Indian agriculture has profited from irrigation development, but it seems to have given poorer results than expected. It is probable that only a small increase in output can be traced to the millions of rupees spent on irrigation.

This is not only because irrigation possibilities have not been used to the full (as was mentioned above); it is also because in India irrigated land is not normally used for more than one crop per year[2]—only 14 per cent of the land in Bengal yields two crops, against two-thirds of the land in the Red River Delta of North Vietnam. R. Dumont states that the main irrigation works have merely been a security against insufficient monsoon rainfalls, instead of being used to make a second harvest possible. (39)

There is something even worse than under-utilization of water: in

[1] According to the *T.F.Y.P.*, surface area 'potentially' irrigated should have increased by 16·2 million acres (*v. T.F.Y.P.*, pp. 382–3). The probable result will be nearer 10 million acres (*v. T.P.M.A.*, p. 103) or even 8 million acres (*v. E.S.*, 1964–5, p. 14). The Third Plan's proposed expenditure on irrigation (6 thousand million Rs.) was maintained in the Revised Plan of November 1963, although 19 of the 56 big projects were to go ahead at a slower rate (*T.P.M.A.*, p. 105). But an additional expenditure of 213 million Rs. for small irrigation works was provided in 1963–4 and extra funds were to be spent in order to step up the execution of some big projects (*E.S.*, 1964–5, p. 13). But expenditure will not reach 6 thousand million Rs. despite the rise in prices.

[2] That is why the figures for gross and net irrigated surface area are much alike. Only about one-eighth of India's total irrigated surface gives more than one crop per year.

some regions, irrigation has actually lowered output, because the works have been mismanaged. Such a situation has arisen in the Punjab, where bad methods of water utilization and bad drainage systems have caused land washing, standing water on low ground, and a rise of underground water bringing salt and alkaline deposits to the surface.[1] The same thing may harm nearby non-irrigated land. In 1959, official estimates put the area affected by such phenomena (and giving a lowered output) at 10 million acres, 30 per cent of this land being in the Punjab and 20 per cent in the Uttar Pradesh. In the Punjab alone, it is estimated that 50,000 acres are lost each year through the rise of underground water. (40) Similar occurrences were pointed out by Professor Dumont in 1958. The Third Plan consequently set out a programme of large-scale-improvement (drainage, pumping out of underground water, etc.).

Until now, the main advantages which irrigation has given to the cultivator have been greater stability of production (by reducing his reliance on the monsoon),[2] better conditions of cultivation and easier use of fertilizers. Although it could have been used to greater advantage, it has certainly helped to increase agricultural production. Irrigation is really more important than other technical improvements, for a good water supply is the basis for nearly all other technical improvements. (41)

The Extension of Arable Land and Soil Conservation

Financial help towards developing other ways of increasing agricultural output is low compared with the figures for irrigation projects. During the first two Plans, the area reclaimed by the State for cultivation was 4 million acres, i.e. a little more than 1·3 per cent of the land under cultivation when the First Plan went into action. (42) This factor cannot have had a very great effect on output.

Soil conservation was practised on less than 2·5 million acres, and its effect will also have been negligible. (43) Reforestation, which will only

[1] The bad drainage may have been due to faulty engineering calculations for the irrigation system. (*U.N.O./IND/*31, p. 26.)

[2] Most irrigation work is undertaken to this end, and the same was true of irrigation during the period of British rule. Not enough attention is paid to its other uses (multiple growths of crops, for example). Experience has shown that other countries have managed to increase output to a large extent by a fairly small increase in the scale of irrigation works. India's climate lends itself to such developments.

act over a period of years, was used on even smaller areas. But there is a good deal of land which would be more economically profitable if reforested: there would be more fuel, and cow-dung could be used for fertilization.

The Third Plan made for a greater effort in these fields. Soil conservation was to be practised on about 11 million acres[1] and dry farming extended to 22 million acres.[2]

Increased Use of Fertilizers and Selected Seeds

After irrigation, the most important factors which explain the increase in agricultural output are the increases in the amount of fertilizers and selected seeds used.

Output of nitrogenous fertilizers has increased at a fast rate during the first two Plans, but demand has outstripped supply. Production of ammonium sulphate rose from 45,000 tons in 1949 to nearly 400,000 tons in 1955–6. (Measured in nitrogen, the production of nitrogenous fertilizers was then about 80,000 tons per year.) But demand had been underestimated and rapidly rose above the national output, which was not expanding during the Second Plan. The Third Plan proposed an increase in the output of nitrogenous fertilizers to a million tons (in terms of nitrogen—about 5 million tons of ammonium sulphate) and to increase the output of phosphates to 400,000 or 500,000 tons (measured in P_2O_5).

The situation changed in the last year of the Second Plan, and at the beginning of the Third Plan demand fell off. Consumption was expected to rise from 370,000 tons of nitrogenous fertilizers (measured in nitrogen) in 1960–1 to 525,000 tons in 1962–3. The actual demand was much lower and, as targets for output and export were more or less reached, supply exceeded demand. Despite further progress, only 518,000 tons (in nitrogen) of nitrogenous fertilizer were used in 1964–5, together with 150,000 tons of P_2O_5 and 63,000 tons of K_2O. (44) The main reasons for the crisis during the first years of the Third Plan and for the low level of fertilizer production are the following:

[1] The high cost and low efficiency of soil conservation work in India is partly due to the fact that banking usually follows field boundaries and not land contours, as R. Dumont points out. There are exceptions in the Bombay region.

[2] It is, to say the least, surprising to find that the Third Plan advocates the outmoded practice of dry farming rather than alternative growths of cereals and fodder.

First, the excessive price of fertilizers in India. In 1963–4, a ton of ammonium sulphates cost cultivators 340 Rs., whereas in Britain the price was equivalent to 148 Rs., and in the U.S.A. 164 Rs. The price in India was considerably lower at the start of the Second Plan (315 Rs.), but increased rapidly. The price rises were said to be caused by the rise in cost prices due to the higher cost of raw materials and their lower quality. The cost price is usually too high in India because of the methods of production (gypsum instead of pyrites, coal instead of petroleum) and because the factories are badly situated. (45)

Secondly, the low increase in agricultural production obtained from fertilization. The Indian Council of Agricultural Research has calculated that one pound of fertilizer should give an increase in foodgrain production of 10 to 15 pounds. The practical results have been much lower. This seems to be so because the type of fertilizer used is not always suited to the soil, and because the fertilizer is not always applied correctly, causing acidification and salinification of the soil. Once again, it is evident that satisfactory technical progress in agriculture is impossible unless the general level of knowledge is raised and unless there are advances in chemical analysis of the soil.

Last but not least, the system of land tenures and their instability is also a hindrance to technical progress in agriculture.

The fall in demand has retarded output of fertilizers in the private sector. In the public sector, technical problems have held up production, which is much lower than the level proposed for 1965–6 by the Third Plan.

However, the increased use of fertilizers, even though less than expected, represents a step forward in cultivation techniques. It also corresponds to the development of a capitalist form of agriculture for it is seldom the working peasant who makes such investments. Economic and social changes keep step with technical changes.

The Grow More Food Campaign had already promoted the use of selected seeds before the start of the First Plan. However, the results obtained during the First Plan were minimal, as the report on the Plan explicitly states.

During the Second Plan, there was some progress; about 3,000 farms, each of 20 acres on average, were given over to producing selected seeds. But no plans were made for distributing the seeds to particular farms, and selected seeds were still being used by only a very small minority at the end of the Second Plan. In these conditions, the Third

Plan's hope that selected seeds would be distributed over more than 120 million acres was too ambitious.

Other Technical Measures

Other technical measures designed to increase agricultural output have had very little effect.

Action to eradicate plant diseases made little progress during the first two Plans, although organizations to direct the fight were set up in some States. The Third Plan provides for greater action, in particular by distributing pulverizers and hand-worked powderers. If the programme had been carried out, 40 million acres of land would have been protected in 1965–6, but the results will probably be about half as high as expected.

There has been little improvement in the implements and machinery used. It is true that the use of heavy machinery—tractors, electric pumps, diesels etc.—is expanding relatively quickly. This is because very few of these machines were already in use, and also because the main buyers are the richer peasants, whose conditions have improved during the period in question. The number of ploughs and other basic implements has shown little increase. The draft of the Third Plan admitted that this had been a serious fault in agricultural planning over the previous ten years. The Plan intended to remedy the lack, but the solutions envisaged did not cause any rapid changes.

To sum up, the technical measures adopted by the Plans have been of small importance and, except in irrigation and fertilization, the results have been unimpressive. They are certainly poor in relation to the sums spent on agriculture and irrigation, and appear even less impressive if one takes into account the expenditure on rural development under the headings of education and organization.

Pandit Nehru, speaking of the sums spent on agriculture (which he put at 9 thousand million Rs.) said in 1959:

> 'In no other country has so much been spent on agriculture. There are some good results, but, in general, they are lower than expected. Where has the money gone? I do not mean that it has been stolen. But it has not been properly used.' (*The Hindu*, November 21, 1959.)

Seldom has a Prime Minister spoken so critically of a major programme undertaken by his own government.

4. EDUCATION AND ORGANIZATION

The Community Projects Administration has the main responsibility in this field. Its organization is particularly interesting as it provides for economic and social administrations on a vast scale. It stands as a test of the Indian government's policy, which it was hoped would set a notable example in this field.

The Origins and Organization of Community Development

The First Plan was the first official government document setting out the methods to be used in creating a specialized administration promoting development on a national scale[1] According to the First Plan, the basic unit was to be a 'community project'. Each of these was to cover about 300 villages with a total surface area of between 450 and 510 square miles, an area of cultivated land about 150,000 acres in extent, and a population of about 200,000. Each project was normally to be subdivided into three 'development blocks', each containing about 100 villages and 60 to 70 thousand inhabitants. The 'blocks' are in turn divided up into groups of 5 villages, with a 'village level worker' in charge of each group. (46)

The whole organization was set out in detail in the 'Operational Agreement No. 8' between the governments of India and the United States.

This 'Operational Agreement' signed on May 31, 1952, provided for American help in setting up 55 community projects. A complementary agreement was made (dated November 6 of the same year) to create an additional 55 development blocks. American help was also to be sought in training the 'village level workers'. The Ford Foundation in particular offered extensive aid.

The agreement between the two governments outlines the superstruc-

[1] Local experiments in rural, urban and mixed (i.e. both rural and urban) community development had already been made, usually with government support. The First Plan explicitly refers to the experiments; some of them, especially those concerning 97 villages in the district of Etawah (Uttar Pradesh), served as models of what should be done.

The social work inspired by Gandhi should also be mentioned, in particular that in the Sevagaram area and that in the Sriniketan area. The latter was undertaken by disciples of Tagore.

However, as we shall see later, the American extension services for the propagation of agricultural techniques also influenced the methods and the organization used.

ture of the Community Development programme. At the top, there was to be a Central Committee set up by the Planning Commission. This Committee gives general directives to the Community Projects Administrations (C.P.A.) which is headed by an Administrator.[1]

The Administrator is assisted by a corps of Operational Divisions (agriculture, irrigation, public health, education, housing etc.).

Attached to the government of each State, there is a Development Committee, consisting of a number of Ministers. This Committee directs the work of a Development Commissioner, who in turn has administrative officers under his authority.

A similar structure is to be found on 'district' level, on 'project' level, and on 'block' level; the officer in charge of the latter is called the Block Development Officer (B.D.O.). (47)

This is obviously a complex administrative organization.

The First Plan provided for 'Community Projects' to be installed and, on a simpler but less complicated model, a National Extension Service. During the First Plan 120,000 villages were to be served by the N.E.S.

Expenditure on these operations during the First Plan totalled 900 million Rs. We shall see later how the C.P.A. and the N.E.S. actually developed.

The Aims of the C.P.A. and the N.E.S.

The aims of this immense administrative undertaking are put by S. C. Dube in the following terms:

> 'To ensure a large increase in the agricultural output of the country as well as an improvement in communications, rural health and hygiene, and village education.
>
> To provoke and direct an integrated change so as to transform the economic and social life of the villages.'[2]

These aims and methods were chosen for a number of reasons:

First, the disappointing results of the campaigns to increase food production. The Grow More Food Enquiry Committee wrote of its attempts:[3]

> 'No plan can have any hope of success unless the millions of small

[1] At the start of the Second Plan the C.P.A. was replaced by a Ministry of Community Development. In 1959, it became the Ministry of Community Development and Co-operation.

[2] S. C. Dube, *India's Changing Villages*, p. 8.

[3] *F.F.Y.P.*, p. 231.

farmers in the country regard it as their own and are prepared to make the sacrifices necessary for implementing it. . . . The economic aspects of village life cannot be detached from the broader social aspects and agricultural improvement is inextricably linked up with a whole set of social problems.

The lesson to be derived from the G.M.F. programmes confirms the experiences of village development. It is that all the aspects of rural life are inter-related and that no lasting results can be achieved if the individual aspects of it are dealt with in isolation.'

In the light of these observations, the C.P.A.'s first objective was to co-ordinate village activities in the economic and social fields: in improving agricultural knowledge, sanitation, education, housing, roads, etc. The work in each field was to be related to all other projects.

By using one single organization to direct all development, the government hoped that the villagers would grow to trust and support it. Until then, the State meant the police force and the tax-collector. The new administration was designed to serve the people. Advice on agricultural techniques and other subjects would be the more readily accepted if fear and mistrust of the State were dissipated.

The principle of the workers' voluntary and confident participation in agricultural development through the action of the C.D.A. and the N.E.S. leads to a number of requirements. The villagers must express their needs, and development must be carried out with their needs in view. Also, the V.L.W. should encourage initiative and help the villagers to put their ideas into action, even if the work undertaken is not immediately essential to development.

Voluntary aid was, then, one of the main objectives of the V.L.W.s. It was hoped that new techniques of cultivation would be voluntarily accepted and also that collective work would be done.

In the hope of gaining the people's confidence, the V.L.W.s were told to give advice rather than orders, at least to begin with. They were to set an example (48) and put themselves at the villagers' service—hence the name given to the V.L.W.s of *grama sevak* (servant of the village).

In other words, the C.P.A. and the N.E.S. were to remedy the faults and failings of the old administration. Above all, they were to be anti-bureaucratic, an 'organization' encouraging initiative while guiding the villagers towards new ideas, new values, and new ways of life. The members of this administration would therefore have to work in the manner of members of a 'revolutionary party', copying, for example, the methods used by the Chinese Communist Party in the villages.

The Development of the New Administration

During the First Plan, the new organizations began to work in nearly 1,000 'development blocks' containing nearly 140,000 villages with a total population of 79·5 million inhabitants.

This was an immense undertaking, which testifies to the country's great capacities for organization and shows that there was a large reserve of relatively well-trained personnel from which it was possible to recruit thousands of new State officers. (49) Unfortunately, there were some ill effects to follow from this quick start.

The organization expanded at a slightly slower rate during the Second Plan, and there were some changes. The first took place in 1957. It was decided to give up the idea of incorporating villages into the N.E.S. (which had funds of 450,000 Rs. per block) before transforming some of them, a year or two later, to the Community Development (which had a budget of 500,000 Rs. per block). The new idea was to put the villages through two five-year phases. During the first, block funds were to be 1,200,000 Rs. per block, but during the second, only 500,000 Rs. Also, the date when the whole country would finally be included in the C.D. was put back to October 1963.

The second change took place at the beginning of 1958. The N.D.C. decided to combine C.D. with the *panchayat* and the co-operative systems, in order to decentralize the C.D.A. and link it more closely with local democratic institutions. Whether the resulting organization was truly democratic or not depended on the balance of social power in each district. For the moment, the advantage certainly lies with the richer classes.

At the end of the Second Plan, there were about 3,100 development blocks covering 370,000 villages. But despite a rapid expansion, the Second Plan's expectations were not fulfilled. The whole country should have come under the N.E.S. or the C.D.A. before the end of the Second Plan, and at least 40 per cent of the N.E.S. blocks should have been converted to C.D. blocks.[1]

According to the Third Plan, 5,223 development blocks covering 550,000 villages were to be in operation by 1965–6. In June 1964, there

[1] In all 3,800 N.E.S. blocks should have been working and 1,000 blocks passed over to C.D.

were about 5,100 development blocks benefiting from Community Development services and containing more than 400 million people. Total coverage, first expected at the end of the Second Plan and then put back until October 1963, had almost been achieved.

However, this coverage is largely theoretical, for at village level there were only 58,000 V.L.W.s. Even so, these had been a considerable effort, supported by the 3 thousand million Rs. provided under the Third Plan. Let us now evaluate the cost of the new services.

The Cost of the New Services

Global statistics in this field do not mean a great deal.[1] We shall have to go into greater detail.

Initial estimates give an average budget for the personnel of each N.E.S. block of 44,000 Rs. per year. Of this, 9,000 Rs. went to the technical specialists and 12,000 Rs. to the V.L.W.s. Equipment and establishment costs totalled 750,000 Rs., of which about three-sevenths was reserved for loans (to finance small irrigation projects in particular). Part of this total was recurrent each year: in practice, about 20,000 Rs. (50)

The budget of a C.D. block was about 240,000 Rs. per year for its personnel. The equipment budget varied according to the type of project and the method of calculation used, but was somewhere between 1·3 million Rs. and 6 million Rs., and the annual expenditure on re-equipment between 70,000 and 300,000 Rs. per year. (51)

Expenditure on equipment and material is very high because the C.D. projects are essentially large-scale constructions: irrigation works, sheds and stables, sweet-water wells, drainage, road-construction, school buildings, health units and dispensaries, tractor centres, the construction of markets and warehouses (for agricultural produce and fertilizers), training centres for craftsmen, etc. But the outlay was never as great as expected (52), and the projected expenditure was reduced during the Second Plan.

As we have seen, the N.D.C.'s decision to put off total coverage until 1963 brought about new credit restrictions. They affected the existing development blocks immediately.

To understand why outlay was reduced, two points must be borne in mind: on the one hand, most blocks were 25 per cent bigger than the initial average; on the other hand, about 25 per cent of the posts in existing blocks were vacant. Furthermore, in some States, about one-quarter of the personnel was considered to be inefficient or undesirable, and was therefore to be dispensed with.[1] (53)

Credits to cover establishment and running costs were cut considerably as time passed, partly to allow for a quicker annual rate of expansion. There were 200 blocks in 1958, 300 in 1959, 400 in 1960, and 2,000 during the first three years of the Third Plan.

There is every indication that the fall in expenditure does not correspond to a fall in running costs (measured by comparing expenditure with services rendered) but to a more or less proportional reduction of services rendered, for there are always fixed costs which cannot be reduced.

The U.N.O. technical aid mission ends its chapter on the C.D.'s activities—this chapter deals mainly with the administrative aspects of Community Development—with the following warning:

> 'The rate at which these services expand will be decisive. An excessive, unrealistic rate of expansion can only multiply existing difficulties and give illusory results. The expansion of a badly selected personnel, ill-prepared to serve an excessive number of villages, or of under-equipped personnel can seriously endanger the very foundations of the programme. Even a moderate expansion of 300 blocks a year, if it increases the effort of preparation to give the existing blocks more personnel ... would require much larger funds than at present allotted to the Community Development programme.'[2]

Results

As the P.E.O. report says, the office and the functions of the *grama sevak* have been different from those envisaged in most districts: the *grama sevaks* have been busy organizing work and providing material.[3]

The villagers have seen the V.L.W. as an administrator rather than as a 'servant of the village' or a friend and counsellor. Admittedly, he has been a benevolent administrator, which is certainly a break with the past. He is the person who helps to get a school built, a road constructed, or a dispensary set up. It is he who provides technical advice and the means for carrying it out.

[1] They include initial establishment expenses as well as running costs. Besides, 'blocks' (all coming under the same heading) have different levels of activity.

[1] Professor R. Dumont considers that one-quarter is a conservative estimate.
[2] Cf. *O.N.U./IND*, p. 18.
[3] *Evaluation Report*, 1957, p. 26.

In this way, the villagers and the administrators have to some extent been reconciled. The gap which separated them in 1951 seems to have narrowed, at least in those villages where the V.L.W. has done a good job.

But there is still a gap, even in the best cases. There is still a marked social distance between the administrator—even if he is benevolent and low paid (100 Rs. a month)—and the majority of the villagers. He is a 'gentleman' (a *Babu*) of a higher social standing, who is to be respected since he can dispense administrative services, funds, and various goods. As a result, there is no real communication between the two sides.

The villagers seldom express their disagreement with the V.L.W., which does not stop them talking behind his back. Discord stays hidden for too long, and the V.L.W. does not have an opportunity of winning the villagers over or being persuaded—as might be the case—that his advice or suggestions were not practicable.

Worse still, the C.D.'s action has not called forth any show of real initiative from the villagers. They have not been impelled to get moving and be independent, to show that they are the country's main productive force. The contrary may be happening. The V.L.W. with his development funds, his administrative and practical powers, may seem to be there to take the burden off the peasant's shoulders, a sort of 'good angel'.

In theory, the material contributions from the State should be balanced by work and material or financial resources provided by the village. In practice, the villager's share of the effort is often rather hypothetical. Psychologically, the peasant's effort has not seemed to him a natural return but a payment demanded by the administration, which he was forced to provide.[1]

The report adds that there had been no voluntary work for two or three years in a large number of the villages which the mission visited.

The C.P.A. can also call on voluntary workers' associations to supplement the work done by villagers; for example, the National Cadet Corps, the Auxiliary Cadet Corps, the Bharat Scouts and Guides, the Bharat Sevak Samaj, the Kasturba Gandhi National Memorial Trust, the Harijan Sevak Sangh, the Bharatiya Adimjati Sevak Sangh, etc. can be asked to help. Hundreds of thousands of young people belonging to these organizations are prepared to take part in development work.

In some cases, the authorities have called on these organizations to help with major projects and with local improvements both urban and

[1] Cf. United Nations Report *TAC/IND/31*, p. 23 and note 30.

rural, but have not asked them to participate on a large scale. It is true that in a country where underemployment is rife the use of voluntary workers does not always meet with the approval of the poorest classes. Besides, it can be very costly to use voluntary labour. The volunteers have to be transported, housed, fed and organized. Expenses run into millions of rupees, whereas the work done by unskilled, untrained young men and women, often of middle-class origins, is of small economic value. The productivity of this sort of volunteer is estimated to be half that of an agricultural labourer, and the expenditure *per capita* is as great as, or greater than, the cost of paying a hired labourer a normal wage.

The psychological results expected from the Community Development campaign have not fully materialized. With smaller budgets and higher costs, the future seems black; the V.L.W. will not be able to satisfy demands and his prestige among the villagers may diminish along with his funds.

The Draft Outline of the Third Plan repeated what the C.D. planners demanded ten years before, and what had not been achieved: 'The V.L.W. must live in the villages and among the people, taking part in their activities and helping them . . . [They must] have an intimate knowledge of the cultivators and their problems and become, as it were, members of the local communities.'[1]

Better results have been obtained in other fields, particularly in construction. But they do not always tend to increase agriculture production, and it is very difficult to judge what practical effect they have had.

Construction of schools, roads, and wells has certainly progressed satisfactorily. In the P.E.O. study mentioned above, 80 per cent of the sample villages had undertaken construction work under the C.D.A.'s impulsion. The average outlay per village where construction has been carried out was 4,600 R.. On the other hand, only 40 per cent of the villages had undertaken irrigation works, and the average outlay in villages which had done so was 7,600 Rs.

Moreover, 23 per cent of the villages studied had profited from land clearance, and 18 per cent from soil conservation schemes. Primary schools had been set up in 42 per cent of the villages and centres to combat adult illiteracy had been created in about 39 per cent (but many of the latter ceased to function a few months after they opened).

There has been a considerable effort in the field of construction, then;

[1] *D.O.T.F.Y.P.*, p. 155.

but, as we said above, it is difficult to measure the practical effects of these activities.

We can give a few details about the results obtained from irrigation projects. The P.E.O. report (from which the above figures were taken) shows that much of the work was done by individual cultivators and financed by loans from the C.D.A. The report adds that it is mainly the owner-cultivators who have benefited from loans (not the tenants) and that the owners of larger holdings have benefited most. (54)

The report qualifies the effects of land clearance and irrigation as 'substantial', without giving any details.

According to the *F.E.R.*, harvests in the regions covered by the C.D.A. and the N.E.S. are 25 per cent higher than the average (which seems a little exaggerated). It adds that this is due to a better distribution of fertilizers and better irrigation.

The V.L.W.'s job is also to persuade the peasant to adopt new techniques. Here, the changes of attitude should have a direct or indirect effect on production and on standards of living.

The same report declares that nearly 90 per cent of the villages studied agreed to use selected seeds, that 88 per cent agreed to use manure or fertilizer, and that 60 per cent accepted new methods of cultivation.

But these percentages do not mean very much: a new method is considered to have been accepted as soon as one cultivator uses it.

It is important to know why the new idea is accepted. It may be because the peasant is trying to avoid displeasing the V.L.W.; or because he is ready to make a certain effort for a year, but is not prepared to persevere; or because he really wants to make a serious and prolonged attempt to improve conditions. Finally, some may want to experiment with and improve the methods suggested. It is only in these last two cases that a permanent result has been obtained.

Various surveys show that a lasting result of this sort is not frequent. In most cases there is merely passive agreement. That is to say, the peasant has not been convinced that the innovation is worth an extra effort. It is certainly difficult to convince him when the crops are not destined for the market. Illiteracy and lack of scientific knowledge are partly responsible for this situation, but it is true that the methods of disseminating agricultural knowledge have not been effective.

The V.L.W. is not close enough to the peasant to be in his confidence. He is an outsider, and does not know how to set about winning the

peasant over to new ideas. (55) Worse, he himself has seldom any knowledge of the scientific theories behind the new methods which he advocates and is liable to make technical mistakes which destroy any confidence the peasant has placed in him.

Nor are social conditions favourable. The peasants are afraid of paying higher taxes if the new methods succeed and production increases. Or else they are afraid—if they are not landowners—of having to pay higher rents and getting a lower price for their produce.

It is generally the richer peasants who obtain advice, material aid and loans from the V.L.W. because they feel more or less on an equal footing with him and because the immediate result is likely to be greater as their holdings are bigger. It is also the richer peasant who is the more easily persuaded. Sometimes an innovation which is accepted by the richer peasantry spreads to the rest. But often the collaboration between the V.L.W. and the richer peasantry loses him the confidence of the poorer peasantry. He may even attract their hostility, especially if he has contributed to the acceptance of better implements which put some agricultural labourers or poor peasants out of their jobs.

These factors, linked to the basic conceptions of C.D. and to the social set-up of rural India, explain why the huge and courageous effort towards Community Development has had such a disappointing effect both on immediate production and on the attitude towards new production techniques.

From all points of view, this immense effort has left rural problems almost entirely unchanged; where it has affected production favourably, the increase has been small.

The effort has not been well directed. The Indian village has been considered as an integrated 'community', whereas it groups different classes between which relations are often strained. Because the C.D.A. adopted the policy of staying outside these conflicts, it has been made to serve the interests of the richer classes. And yet this organization was supposed to be capable of acting like a revolutionary party, inspiring the people, developing initiative, guiding them forward in an atmosphere of mutual trust. Eventually the rose-coloured spectacles had to come off.

Not that the effort has been in vain: on the contrary, it had to be made. The future progress of agricultural production will be based on the new organization even if it is the richer peasantry who benefit most. But if the problems had been faced more realistically, without all the talk of 'communities', if social differences had been taken into account, if more

stress had been laid on technical problems and technical knowledge, the results would have been far better and the cost of the effort much less.

There have been other consequences resulting from the C.D. campaign (not all of them foreseen) which will affect the future development of rural India. One consequence is that the process of social differentiation has been speeded up. This has taken place in different ways, and more by means of social pressure than because of any deliberate action. We have seen the process at work when studying the distribution of credits and the undertaking of communal irrigation work which has been of advantage to the richer peasantry. This differentiation effect is readily recognized and many protests have been made against it.

Another consequence of this sort is that social differences have appeared less natural and more the effect of direct intervention. The feeling of social injustice has therefore grown stronger and resulted in open protests. Thus Community Development can increase social tension and cause violent reactions, which are in direct contradiction with the intentions of its founders.

Most commentators point out that C.D. has developed needs and demands in a large number of villages. This is an important point, for all economic progress necessarily proceeds in this way.

However, as the existing social structure cannot allow most of the needs to be satisfied, opposition may grow stronger and finally result in future social changes. These consequences of C.D. are very important, but not quite what was intended when the experiment began.

The Panchayats *and the Future of C.D.*

The failure of C.D. in its original form and its excessive costs have more or less transformed it into an organization for disseminating agricultural knowledge, which directs its efforts to relieving agricultural difficulties.

The task of organizing and inspiring the peasantry has little by little been abandoned, and has been taken over (in theory) by the *panchayats*. This is not a new idea, but it has once again come to the fore with the creation of a fairly large number of *panchayats*, often with aid from the C.D.A.

The present tendency is to consider C.D. as a technical-aid organization and the *panchayats* as the instrument for carrying out social and economic planning at village level, in collaboration with the basic co-operative.[1] The plans should be co-ordinated at block level, the blocks thus occupying a new position as basic planning units.

This new conception is just as unrealistic as the old. The village is incapable of working out development plans, not through inexperience but because of conflicting interests which nullify any attempt at positive action. The new methods are also unrealistic because the *panchayat* is no more capable than the V.L.W. of encouraging initiative and mobilizing the immense underemployed reserves of the rural working force. Once again, it is the social structure which is the stumbling block.

Behind these unrealistic projects, new institutions are arising which are in line with recent developments. On the one hand, the rich and middle peasants (who send their sons to secondary schools and even to college) are becoming a rural stratum capable of directing and organizing communal affairs (the building of schools, roads, sanitary installations etc.) and willing to do so. This stratum will slowly be able to renovate the *panchayat*'s power. A certain number of services at village level will probably be developed because the richer peasants want to find work for their sons which is suited to their better education.[2]

On the other hand, the appearance of new collective needs—education, health services, roads, etc.—which can only be satisfied by collective action means that municipal action other than 'village planning' must be developed. That is to say, the *panchayat*'s possible field of action is growing larger.

There remains the question of the *panchayat*'s finances. We have already spoken of their limited resources, due to the poverty of the Indian countryside itself, which are still insufficient despite all efforts to increase them. They cannot cope with the new requirements. This means that the development of needs is not in accord with the development of productive forces. In this particular case the imbalance is worsened by the fact that rural development is lagging further and further behind urban development.

The unemployed working force is there to provide the human material

[1] In some states, the C.D.'s local services are being transformed into technical services placed at the disposition of the *panchayats*. The changeover is causing some difficulties. The C.D. personnel who were 'leaders' in the village dislike having to accept the *panchayats*' orders, which they do not always think justified.

[2] The 1957 P.E.O. report, speaking of the young people who return to the village after receiving secondary or university education, says that growing numbers are looking for work as *grama sevaks*, village schoolmasters, *panchayat* secretaries, etc. (*op. cit.* vol. 1, p. 67).

but the problem is how to use it. Many illusions on this subject have been destroyed in recent years. In official circles there is a refusal to recognize that the class structure of Indian society prevents its mobilization. The lack of voluntary mobilization is noted, and its consequences stated, but that is all. The answer has been to abandon voluntary work, but not to abandon the attempt to mobilize the unemployed working forces. The idea has arisen that the *panchayats* should be allowed to demand compulsory work. This idea has even been stated in the Third Plan.

These are some of the recent developments which explain why new institutions have arisen and why the existing institutions may have new scope. In any case, there is little to hope for from the unrealistic theories which are given out by official sources. The new scope may mean progress, but things cannot change very quickly or very much. Nothing radical can be done to develop the rural productive forces without mobilizing the existing forces on a voluntary basis, without inspiring a real will to change the country and to work close together. The present social structure and the institutions which are based on it will not permit this sort of development to take place. The best one can hope for is a slow expansion which will at least be better than the stagnation of the past.

7. SUMMARY

To sum up the changes in agriculture and in agrarian politics, one can say that the numerous and extensive measures taken by the Indian government since Independence have given a relatively small increase in agricultural output. None of the measures has provoked the rapid agricultural expansion which the country desperately needs to better its standard of living and to right its balance of trade. Most of the social, technical and administration factors which explain the slow rate of progress have been mentioned in the preceding pages. We shall summarize only the most important.

First, property ties and social relationships have not been changed radically, and still impede agricultural development. (56) It is still too often the case that those who work the land have no interest in improving it or in making innovations and investments, for the landowner or creditors would be the ones to gain. The peasant is still heavily in debt, and the creditors demand more as the peasant's income increases.

Secondly, the rural credit system is still dominated by professional moneylenders who demand excessively high rates of interest. The rates are out of proportion to those common in the modern industrial sector of the economy and are upheld by the local monopoly of the moneylender. Co-operative development has not yet been sufficient to break this monopoly. High interest rates make a large number of potential agricultural investments unprofitable, although they would in fact be more profitable than many industrial investments.

Thirdly, price instability discourages any effort to increase output. Such efforts can even cause financial ruin if the fall in prices is proportionally greater than the rise in production. The local merchants, who also have monopolies in many cases, threaten the peasants with just such consequences. The instability of prices and the resulting possibility of quick profits make commercial activities more attractive than production efforts, especially for the rich peasants who are left to place their savings in stocks of merchandise. Rapid agricultural expansion requires greater price stability. (57)

Fourthly, too much has been expended in the administrative effort to cover the country by the C.D.A. and not enough attention has been paid to technical education and assistance for the peasantry. At the end of the First Plan, there were only 44 agricultural secondary schools in India, with fewer than 2,100 pupils, and more than one-third of these schools were concentrated in the State of Bombay. At the same date, there were only 18 agricultural colleges with fewer than 5,000 pupils. (58) In 1950–1, 1,060 pupils began a course at one of these agricultural colleges. The numbers had increased by 1961, but were still small (4,600). It is estimated that only 3,300 more agricultural engineers were officially estimated as needed during the First Plan, which was 2·7 per cent of the total number of engineers estimated to be needed. The training of technicians for agriculture has not yet received the attention it deserves. (59)

These are some of the factors which explain why the results were so small in comparison with the cost of implementing agricultural policy in recent years.

Progress is sure but slow. The country has not reduced its foodstuffs deficit, which is covered by increasing importation—nor has industry been expanding at a steady rate. It cannot do so unless agricultural produce reaches the towns in much greater quantities. Nor have the results obtained kept prices stable. Industrial development (which continues despite the drag from agriculture) and the rise in population make it necessary to increase agricultural production at a much higher rate.

Undernourishment, a bad foreign trade situation, and an irregular industrial expansion with consequent inflation and unemployment: such are the results of insufficient progress in the agricultural sphere.

If agriculture progresses at all, it is because capitalist agriculture is beginning to make headway. It is developing by its own means, under the stimulating pressure of (and with the aid of) government policy, which provides for irrigation projects, better credit facilities, larger stocks of fertilizers and selected seeds, Community Projects, the N.E.S., etc.

The progress achieved has neither a stable nor a broad basis. It depends mainly, if not entirely, on the increased yields and increased productivity of the richer agriculturists. Very recently, due to high agricultural prices, some well-off people have started investing in agricultural production. It is difficult to assess the size of this very new phenomenon and its possible impact, but it will certainly be giving some impulse to agricultural production.

The present advance of Indian agriculture suggests that social differences will be increased in rural districts—that some will get a lot richer while others become poorer, if that is possible.

The Congress Party's watchword of a 'socialist society' and its slogan of 'progressive reduction of inequalities' will thus become a sad mockery. Tension and discontent are liable to grow in rural districts until they reach bursting point.

ANNEX

THE KERALA 'AGRARIAN RELATIONS BILL'

The text of the law passed on June 10, 1959 by the Kerala Assembly is similar to others adopted in the various States. But it differs from other laws firstly in its conception and in the conditions in which the communist government of Kerala prepared and applied it; secondly in that some of its clauses are extremely precise. As we have seen, the text was not in the end accepted by the Central Authorities, and we shall limit ourselves to pointing out its main features of interest.[1]

[1] A short time after the communist government of Kerala adopted the law, violent protests were organized by the opposition on the pretext that the law providing for education reorganization was unacceptable. Instead of upholding the State Government, the Central Government dissolved it. Elections were held in 1960 and the resulting government had a 'socialist' leadership. The new government modified the original law, destroying its originality and bringing it into line on most points with other Agrarian Reform Bills.

Forty-eight hours after taking power in Kerala, the government of Namboodiripad, which had a communist majority, had put out an Order forbidding evictions of any sort in an attempt to stop the mass evictions which were taking place—and still are—in most States.[1]

The Agrarian Relations Bill (A.R.B.) tranferred the rights of those areas cultivated by tenant-farmers to the State. The tenant could buy his land by paying several annuities at a statutory price. The land rights were to be transferred to the tenant at the first payment. So far, this seems much the sort of law passed in other States. But the Kerala Bill goes on to add the following provisions which made it radically different from the others.

Firstly, cropsharers and other tenants-at-will are explicitly named as enjoying these rights (whereas in most States they were not even given security of tenure). In other words, the law favoured the richer peasantry in other States; in Kerala, it also included those who really work the land.

Secondly, to prevent the landowner from calling cropsharers 'agricultural labourers', the law stipulates that an agricultural labourer can be considered a cropsharer if his payments consists of a fixed proportion of the produce from his land.

Thirdly, in most States, landowners are permitted to retain lands under 'personal cultivation', which allows them to become agricultural capitalists.[2] In Kerala, the right to retention was strictly defined. It was to be withheld from any landowner who possessed more than 10 acres giving two crops (under 'personal cultivation') or an equivalent amount of land. Also, the landowner could 'retain' a maximum of 5 acres (giving two crops) provided that he had no more than 10 acres in all, and that none of his tenants was left with less than one acre.

Other details also gave the Kerala A.R.B. a social content which was entirely different from that of the other States' laws, although the fundamental principles are the same in all cases. (60)

Two further points should be made. In the first place, the above remarks mean that the A.R.B. was still a bourgeois agrarian reform and

[1] There have certainly been cases of eviction, but not in great numbers. Peasant defence organizations (mainly the Kerala Karshakam Songham) have been active in the villages and communist activists have explained the system to villagers.

[2] This was the main cause of mass evictions, especially when this right was not controlled, or when, as in most States, the limit set was so high that it could only be applied in exceptional circumstances.

not a revolutionary measure passed exclusively on the peasantry's behalf. This was so because the Bill respected landowners' existing rights, modifying them partially and providing for compensation at an honest price. There was no redistribution of land: those with little land were to have no more than before, but would be able to own their land, and their income would no longer have been split up. Agricultural labourers were not given any land.[1] The Kerala reform (wholly compatible with the Indian Constitution) was one of the more advanced variants of this reform, the other being the Kashmir Bill. The other States passed considerably less advanced variants, which were based on a compromise with the landowners and the big landlords, and favoured the richer sections of the rural population.

In the second place, it follows from what we have already said that the two extreme variants were supported, and opposed, by different forces from those behind the other types. It was mainly the urban bourgeoisie which put through the Congress Party's agrarian reform programmes. This class wanted to end the agricultural paralysis which was preventing the expansion of both agricultural production and the domestic market. It also wanted to find social allies in the rural districts and, sure enough, the agrarian reforms favoured the future rural bourgeoisie to the detriment of the peasant masses.

This situation, and the fact that some of the urban small bourgeoisie's income is provided by the exploitation of peasant workers (in the form of rent and cropsharers' tithes), explains why the landowners were able to put up such a strong opposition to agrarian reform that a compromise limiting the reform's economic and social effects was inevitable.[2]

In the Madhya Bharat the same happened, with the *jagirdars* forming armed bands which practised violence and even murder, attacking the peasants who tried to defend their rights and the leaders of peasant

[1] Other measures were taken to give government land not under cultivation at the time to some of the agricultural labourers.

[2] In many regions, and mainly in the North and North-West, the landlords and feudal landowners put up violent resistance which nearly caused a civil war. In Rajasthan, the *jagirdars* reacted to the first mention of agrarian reform by evicting their tenants. As D. Thorner notes, many a tenure was annulled by the tenant's death. Towards the end of 1952, Professor Dool Singh (quoted by D. Thorner) wrote that almost everywhere in Rajasthan, the *Bhomias* (a type of small *jagirdar*) 'are in revolt in some regions . . . they have resorted to criminal actions. Only a few months ago, they massacred two eminent public figures' (*Indian Journal of Agricultural Economics*, Vol. VIII, pp. 178–9). The Rajasthan government finally yielded to the threats of violence and the reforms were very limited in scope.

movements. Obviously a much more radical reform would have been required to end this violence and to favour the peasants. Once again a compromise was inevitable (cf. D. Thorner, *The Agrarian Reform*, pp. 30–1 and 43).

The same situation arose in many States as soon as the landowners felt that the Government was attempting more than a half-hearted reform.

The agitation which gathered way among the peasantry in favour of ceilings to land-holdings caused the landowners to ask why only rural property should be limited. This did not please the urban bourgeoisie, who slowly turned against the idea of further reform. In any case, it had already given the results the urban bourgeoisie wanted.

The more radical reform in Kerala was supported mainly by the most active elements of the working class and most of the peasantry. It aroused hostility from the bourgeoisie, partly open, partly behind the scenes. The sort of reform envisaged in Kerala would run counter to the interests of the urban bourgeoisie, which has a fairly large income from land rent.[1]

There was also hostility to the A.R.B. from political organizations supported by the middle classes (particularly within the Congress Party and the P.S.P.).[2] This is due to the fact that a radical reform in one State would show up the lack of true reform in other States.

These parties cannot be truly democratic unless they are supported by a majority of the population, which is to say, a majority of the poor peasantry, the cropsharers, and the agricultural labourers: they therefore found themselves in an awkward position. For example, they could not openly oppose the agrarian reform project proposed by the Namboodiripad government.[3] But the debates in the Kerala Legislative Assembly and the Commissions prove that these parties did all they could do

[1] Wherever the Congress considered more radical reforms there was hostility from the bourgeoisie and the middle classes. Sometimes the hostility came into the open as in Bihar, where in 1954 the civil servants and local lawyers protested against the threat of 'proletarization of the middle classes' which they thought to be contained in the consolidation of tenancy rights and of cropsharers' rights in particular. (D. Thorner, *The Agrarian Prospect*. . . , p. 34.)

[2] The P.S.P. (Praja Socialist Party) is the main social-democratic party in India.

[3] The *Economic Weekly*, which could hardly be accused of 'communist' tendencies, wrote on this subject: 'No political party could allow itself to oppose the principles incorporated in the law. It was, however, evident that an influential wing of Congress was hostile to the law, but unable to express its views openly. The only means of sabotaging the agrarian legislation was to agitate for the Ministry's elimination on other pretexts' (*E.S.*, July 1959, p. 928).

to stop the law being passed or to cut out its more radical measures.[1]

As the bourgeois parties were unable to stop the law being passed, they resorted to violence. But finally it was the support of the Central Government which gave these parties what they wanted, the suspension of the communist-majority Kerala government. It was suspended on the 31st July 1959, three days after the law was referred to the President of the Republic for his approval.

[1] We cannot go into the complexities of how the Congress Party and the P.S.P. tried to block the law behind the scenes. One method was to propose excessively radical amendments which, if adopted, would have caused the law to be annulled by the Supreme Court. Every effort was made to emasculate the secondary points, which seemed of minor importance but were of great practical use. On the whole, the different manoeuvres failed to have the desired result.

NOTES TO CHAPTER VIII

(1) Agricultural statistics in India are even less dependable than those of other countries (see Dr. B. R. Sen's statement in *E.T.*, September 27 1966). Moreover the Ministry of Food and Agriculture puts out at the same time two series of figures which contradict each other. One series, giving absolute values of tonnages and areas, takes little account of the changes in statistical methods or in the scope of the surveys, which means that it is impossible to compare the figures for different years. The other series, giving indices, apparently allows for these changes. But as no indication, or very little, is given of how the allowances are made, these figures should also be used with caution. The second series is probably less misleading than the first.

On this point, see D. Thorner, 'Elusive Indian Agricultural Output Figures', in *E.W.*, January 1960, pp. 199 *et seq.* and A. Rudra, 'Growth of Output in India' in *Perspective*, June 1961, pp. 53 *et seq.*

(2) For vegetable produce we shall use the most recent absolute figures. For previous years, the official indices are generally used. This method is obviously highly suspect, but it is the only one which permits meaningful results.

(3) These statistics are given to the nearest round figure, as any further precision would not be more exact. It should be remembered that the agricultural year ends on June 30th.

(4) The problem of urban and some rural food supplies is related to variations in *market* and not in total production. Unfortunately, marketed production statistics are particularly deficient, as is noted by

the 'Foodgrains Enquiry Committee Report', New Delhi, 1957, see especially p. 44; the abbreviation 'F.E.R.' will be used below to designate this report.

The rare figures available show that the percentage of market production on the rural markets surveyed was subject to large variations. Here are the figures quoted by the *F.E.R.* (p. 188):

PERCENTAGES OF THE PRODUCTION OF RICE REACHING THE MARKETS OF SOME TOWNS IN THE STATE OF ANDHRA

	Nizamabad	*Mahboodnagar*	*Warangal* (paddy)
1953–54	16·2	26·3	16·0
1954–55	35·1	28·4	25·6
1955–56	27·7	27·2	29·8
1955–56 (9 months)	23·9	24·6	25·1
1956–57 (9 months)	24·8	27·2	16·8

The *F.E.R.* attempts to interpret these fluctuations (*v.* pp. 45, 46) against the background of variations in the total production, prices and social factors. We shall not go into these interpretations (which are only hypotheses) for lack of space. The lack of statistics makes it impossible to verify any theories or even to estimate the fluctuations in agricultural market production throughout India as a whole.

Recent figures are no better than those given above. However, it is certain that marketed production still fluctuates a great deal, and wheat in particular. The wheat harvest fell in 1963–4 to 9·7 million tons (against 12 million tons in 1961–2 and 10·8 million tons in 1962–3) and the amount marketed also decreased from 5 million tons in 1961–2 to 2 million tons in 1963–4 (cf. K.N. Raj, *Indian Economic Growth*, p. 516. See also V. G. Rastianikov and M. A. Maximov, *The Development of Capitalism in India's Agriculture* (in Russian), published by 'Sciences', Moscow, 1965, pp. 280, in particular pp. 22 to 35).

(5) Cf. K. N. Raj, *Indian Economic Growth*, pp. 11 and 12.

(6) The slow increase in yield is particularly characteristic of foodgrains, the cultivated area of which has increased by 1·6 per cent per year during the first two Plans (cf. M. J. K. Tharavaj, 'Foodgrains Shortage will continue in the 4th Plan', in *E.W.*, p. 1072. See also: S. J. Patel, 'What is holding up Agricultural Growth', in *E.W.*, Annual Number, February 1964; K. N. Raj, 'Factors Responsible for

Low Productivity in Agriculture', *The Economic Times*, October 7 1964; M. J. K. Tharavaj, 'Food-grains: the case for Rationing', in *E.W.*, October 3 1964, pp. 1599–602.

(5) The figures quoted below have been calculated from statistics. The *F.E.R.* gives similar estimates.

FOODGRAIN PRODUCTION (IN MILLION TONS)

1949–50	58·0	1959–60	76·7
1953–54	68·9	1960–61	82·0
1954–55	67·1	1962–63	78·4
1955–56	66·8	1963–64	80·2
1956–57	69·9	1964–65	89·0
1957–58	64·3	1965–66	72·3*
1958–59	77·4	* Estimate	

(7) *E.S.* 1966–7.

(8) Cf. *M.F.F.Y.P.*, p. 16.

(9) This is the official estimate for 1965–6. It is generally believed that this figure is an underestimation and that the actual amount of the foodgrain crop should be somewhat greater.

(10) Cf. *M.F.F.Y.P.*, p. 16.

(11) Cf. 'Bullock Labour Utilization in Agriculture', by C. P. Shastri in *E.W.*, September 3, 1960, pp. 1347 *et seq.*, *F.R.N.I.C.* p. 51. See also 'The Livestock Situation' by Ashok V. Desai, *E.W.*, February 1965, pp. 329 *et seq.*

(12) The rate at which these credits are used will mean that the targets will not be reached.

(13) Cf. the work quoted in note 4 by V. G. Rastianikov and M. A. Maximov.

(14) This law is analysed in H. D. Malaviya, *Land Reform in India*, pp. 108 *et seq.*, in D. Thorner, *The Agrarian Prospect of India*, pp. 18–25 and 47–49 and in B. Sen, *The Indian Land System and Land Reform*, pp. 82 *et seq.*

(10) All the laws abolishing intermediaries (except for the Kashmir law, which was not submitted to the jurisdiction of the Supreme Court of India) allowed for compensation. The total expenditure entailed reached 6,150 million Rs., i.e. more than six times the public expenditure on industrial development or on medicine and public health during the First Plan. The indemnities paid to intermediaries were generally fixed at a multiple (between 8 and 28) of the net income received by each intermediary at the time of calculation. The indemnity was paid either in cash or in bonds (negotiable or not) repayable at more or less short terms in liquid currency. (See in particular the *Review of the First Five Year Plan*, pp. 315–16.)

(16) It is not entirely true to say (as does J. Dupuis) that 'the tenants who were directly dependent on feudal lords receive the status of *pattadar*; they pass . . . from a state of unsure possession to one of full ownership' ('Les Régimes Agraires dans l'Union Indienne' in *Annales de Geographie*, Nov.-Dec. 1957, p. 561). In fact, although rights may have been consolidated for some, few receive full ownership rights except when they buy such rights, which is exceptional. Nor is it true in general that the tenants' rents have been reduced to the level of the agrarian tax.

The failure of the attempt to transform the tenants into proprietors has been recognized by the Planning Commission, which declared: 'Judged by the amount of land purchased by the tenants, and the number of tenants who have been capable of acquiring ownership rights, the steps described above cannot be said to have produced significant results.' (*R.F.F.Y.P.*, p. 322.)

(17) In Daniel Thorner's book, *The Agrarian Prospect in India*, there is a classification of the States into three groups according to the changes produced by the various agrarian laws passed since 1947 (*op. cit.*, pp. 29 to 53).

(18) This 'tendency' does not mean that the Congress Party's agrarian legislation has not caused unprecedented insecurity for millions of peasants. The laws have incited intermediaries to evict the largest possible number of tenants from lands rented out in order to claim that these lands were part of their 'personal estates'. All means, legal and illegal, have been used by the big landlords (including eviction by sheer force and falsification of the registers). The tenants have often been forced to renounce their tenures 'voluntarily' under threats of physical violence or economic sanctions. Millions of peasants have been expelled from their holdings and have become landless peasants. As no count has been made, the exact number of evictions is unknown, but the number of protests and the measures which some States have had to pass in order to protect the peasants (often without success) suggest that this has been a serious social phenomenon. The tardy application of the agrarian laws has only increased suffering and misery, for the intermediaries have been given time to carry out evictions.

(19) Here again, the legislation is so complicated that we can do no more than give a few examples which are important if one is to understand the extent of the resulting landlords' and tenants' rights. It is also important to know who is really *the tenant that benefits from the laws* (for there are a number of successive rights to most Indian lands):

(a) In Bombay and in the Punjab the tenant may retain half of his holding and in the *P.E.P.S.U.* 5 'standard acres' (defined as giving a certain yield); in the Himachal Pradesh, three-quarters of his holding.

(b) The maximum area that a landowner can retain for 'personal' cultivation varies considerably in the various States. In some of the largest, no maximum has been fixed. In others, the maximum is generally between 12 and 50 acres; three 'economic holdings' (i.e. 12 to 48 acres) in the State of Bombay; three 'family holdings' (i.e. 12 to 180 acres) in Hyderabad, 60 to 70 acres in the Punjab, 33 and a half acres in Assam, 50 acres in Berar, etc. In few States is the maximum lower than this; in Jammu and Kashmir it is about 2 to 6 acres, in Orissa 7 to 19 acres.

(c) The beneficiary tenant differs, but is almost never the one who works the land with his own hands.

In West Bengal, the largest rights have been given to the *jotedars*, who formerly depended upon a *Zamindar* and who seldom worked the land. The true cultivators were the *bardagars*, who worked most of the land owned by the *jotedars*, using their own bullocks, seeds, fertilizers and implements. But the *bardagars* were given almost no new rights to the land, except that of retaining a third. This right is in itself highly theoretical. If the proprietor owns less than 7·5 acres (which can easily be the case if he splits up his land among the members of his family), he can reclaim all of the *bargadar*'s holding. The *thikas* (tenants-at-will) are in exactly the same situation as before.

In other States, such as the Uttar Pradesh, Bihar, and the Punjab, the cropsharers find themselves treated in much the same way.

(20) On this point, see 'Land Reform in Delhi', Babraj Puri in *E.W.*, March 14, 1959.

(21) *M.F.F.Y.P.*, pp. 36, 37.

(22) M. L. Dantwala states that in the decade following Independence more peasants were evicted from their lands than during the last hundred years of the colonial régime. (Cf. M. L. Dantwala, 'Land Reforms in India', in the *Eastern Economist*, January 1958, p. 60.)

(23) Both statistics and the present unstable changes make measurement difficult. But some of the recent increases in agricultural production must be due to these changes. It is therefore not surprising that the changes are welcomed, despite the 'socialist' declarations heard in official circles. Joint-stock companies are accepted in the newly irrigated areas, where they manage crop-growing (in the Punjab, for example). (Cf. *Socialist Congressmen*, July 5, 1965, p. 3.)

(24) Cf. Bernard S. Cohen, 'Madhopur Revisited' in *E.W.*, Special Number, July 1959, pp. 963 *et seq.*

(25) Cf. D. Thorner, *The Agrarian Prospect*, p. 56.

(26) Here are a few brief details about this law. Maximum authorized surface area for existing holdings: Assam, 50 acres ($166\frac{2}{3}$ acres for mechanized farms); West Bengal, 25 acres (the limit applies to property as well as to holdings); Ajmer, 50 acres (this only refers to former intermediaries); Himachal Pradesh, 30 acres.

(27) On this point, see the two following articles: 'Ceiling on Land Holdings', by P. K. Chandrhi, in *W.E.*, March 19 1960, pp. 495 *et seq.* and 'Ceiling on Land Holdings' in *N.A.* (M), April 1960, pp. 1 *et seq.*, by Bhowani Sen. The measures are resumed in the *T.F.Y.P.*, pp. 236–8.

(28) Cf. the article of Sat Paa Kalpar in *Socialist Congressman*, July 5, 1965, p. 11.

(29) Vinoba Bhave, in developing the *Bhoodan* movement, attempted to solve this social problem without relying on legislation. He hoped to succeed in persuading landowners to give land to his movement, which would then be shared out among the agricultural labourers and the poor peasantry. This movement grew quite strong between 1951 and 1953. Vinoba Bhave went from village to village in many regions of India and managed to obtain gifts of land. But, despite official approval, the movement was unable to acquire the amount of land needed. After a campaign which lasted five years, the *Bhoodan* movement had obtained only 4 million acres and gifts of land were steadily decreasing.

Vinoba Bhave has made other efforts recently, creating the *Gramdam* movement which asked village landlords to give over their lands to the 'village community'. Donations are said to have been made in about 1,000 villages. In reality, nothing of the sort happened, and the lands and their produce were unaffected. It is difficult to imagine that the landowners who absolutely opposed agrarian reforms which favoured the poor and landless peasantry would reply to Bhave's appeal.

(30) Cf. *R.F.F.Y.P.*, p. 119.

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(30) Cf. *R.F.F.Y.P.*, p. 119.

(31) Cf. *T.F.Y.P.*, p. 203.

(32) Cf. *M.T.A.*, pp. 88–89.

(33) Cf. *The Rural Credit Follow-up Survey*, Bombay 1958–9, pp. 172–86.

(34) Despite the agrarian laws, rents and payments made by the poor peasantry have been increased in some regions.

(35) Cf. *S.A.* 1957–9, p. 466 and *E.W.*, August 27, 1960, p. 1313. See also *India 1960* (p. 292), which estimated the increase in area irrigated during the Second Plan by large-scale projects at 6·2 million acres.

(36) Cf. *T.F.Y.P.*, p. 382.

(37) In his book, *Terres Vivantes*, Paris, Plon, 1961, R. Dumont has three chapters on the subject of Indian agriculture (chapters 8, 9 and 10).

(38) These three points have been illustrated by Alice and Daniel Thorner in an article on the Sarda canal ('The Weak and the Strong on the Sarda Canal', in *Land and Labour in India*, Bombay, 1962).

(39) Cf. the U.N.O. report, *T.A.O./IND/31*, p. 27.

(40) Cf. *E.W.*, May 16, 1959, p. 651.

(41) The increase in the yield of foodgrains per acre was about 2·5 per cent per year between 1951–2 and 1959–60, but the 1951–2 yields were lower than the average.

(42) The calculations of the increase in area under cultivation are open to attack because the methods used have changed. These figures given should be considered as rough approximations.

The real increase is partly due to individual land clearance, partly to clearance organized by the State, and partly to irrigation, land improvement and a reduction in fallow land.

The Third Plan estimated that the State would clear 3·6 million acres. The actual figure is probably below 3 million acres.

(43) According to the *F.E.R.*, during the Second Plan less than 7 per cent of the expected increase in the foodgrain harvest was due to land clearance and soil conservation (*op. cit.* p. 105).

(44) *E.W.*, November 11, 1965, pp. 1681–2.

(45) *E.W.*, December 14, 1963, pp. 2204–5.

(46) Cf. *F.F.Y.P.*, p. 224.

(47) For the agreed structure, see *Community Projects. A Draft Outline*, Planning Commission, G. of I., 1953, pp. 39 *et seq.* On how the organization developed, see *India's Changing Villages*, by S. C. Dube, London, 1958, and particularly pp. 14–15.

(48) Cf. Nehru's speech on the 7th of May 1952 at a Conference of the Development Commissioners in *Community Projects Administration*, the Planning Commission, May 1952.

(49) The personnel of a C.P.A. block was originally estimated at 100 to 200 and that of a N.E.S. block at 20 to 25. (Cf. *Organization of the N.E.S. and the Expansion of the C.D. Programme*, President's Press, New Delhi, 1953, p. 13). This has not always been the case, but the figures show how different are the two organizations. Other administrative organizations have put some of their staff at the disposal of the C.P.A. and the N.E.S.

(50) Cf. *The Organization of the N.E.S. . . .*', p. 7.

(51) Cf. *Ibid.*, p. 9 and *Community Projects*, pp. 31 and 34.

(52) Thus the 42 C.D. blocks which were closely studied by the P.E.O. (Programme Evaluation Organization) spent 66·7 million Rs. during the first four and a half years. That would mean about 350,000 Rs. per block per year. However, the first C.D. blocks had a budget of 2,200,000 Rs. for the first three years. (Cf. *Evaluation Reports*, P.E.O., Planning Commission, New Delhi, 1957.) The P.E.O. is independent of the C.D.A. and collaborates with the Planning Commission. Its job is to study the C.D.A.'s activities and to estimate costs and results.

(53) Cf. the United Nations Report, *TAO/IND/31*, p. 17.

(54) *Evaluation Report*, p. 52.

(55) The class to which the V.L.W. belongs is also very important. Most of them come from the urban petty bourgeoisie. They therefore have some difficulty in making contact with the peasants. There seems to have been a tendency recently to recruit the better-off peasants' sons who have a fair level of education. This is a step forward, but the essential problem of how to get through to the peasantry has not been solved. Because of their social origins, most V.L.W.s are inclined to help the richer peasantry and ignore the others. The V.L.W.s should be recruited from the *kisans* themselves, even if it were necessary to make them 'agricultural instructors'.

(56) The following analysis of the government's efforts to change the agrarian structures shows that they should not be overestimated. It is by K. D. Malaviya, the former Minister of Mining and Fuel, and is taken from an article in the *Socialist Congressman* of May 1, 1964:

'The numerous official and unofficial surveys (carried out during the last ten years) of the results of the implementations of agrarian laws, the working of Community Projects and other national development services and farm co-operatives, show irrefutably that it is the upper

strata and not the masses of the rural population that have mostly benefited.

'This top group (8–10 per cent) of landowners constitutes the dominant class in the countryside—former *Zamindars*, *talukdars* and *malguzas* etc. who still hold huge areas as 'Sir' lands, and are supposed to cultivate them personally, the big landowners of the ryotwari areas, and the privileged top layer of tenant farmers, who, in the majority of cases, in reality do not themselves work on the land but obtain huge unearned incomes like old landed parasites through illegal subletting and rack-renting, and exploitation of agricultural labourers. All of them are almost invariably bound up with urban, commercial and usury capital. The basis of their economic power is their ownership of more than half the land under cultivation, while more than 80 per cent of the actual tillers own less than 15 per cent of the cultivated land.

'These big landowners control the co-operative societies, they dominate the *panchayats* and local councils, and they obtain the greatest benefits from Community Projects and other such State measures. . . .

'The numerous village studies made during the past decade have shown convincingly that in carrying out the agrarian reforms the basic aim of Congress—the transfer of the land to those who till it—has not been achieved. These studies show irrefutably that the process of the concentration of economic might in the form of land, cattle, implements, capital, etc., at one end of the social ladder, and poverty at the other, is still continuing. Some 7 to 8 per cent of the rural population own half the land while more than 80 per cent of the rural population have either no land at all or have a plot of less than two acres, which means they live in hopeless poverty. About a third of the cultivated land is rented and about 40 per cent of the gainfully employed section of the rural population spend part of their time working for wages.'

(57) We have not the space to examine the questions of agricultural prices, their seasonal variations and their relation to industrial prices. But what counts for the producer is not the 'average market price', it is the actual price he gets after the harvest, or even before if he has to sell as soon as possible. These prices may be 10 to 20 per cent lower than the market prices. Thus a real expansion of Marketing and Credit Co-operatives as well as State intervention in the agricultural markets could have an enormous importance. Until now, little change has been made, and what has been done benefits very few of the producers.

(58) Cf. *F.E.R.*, p. 116.

(59) Cf. *D.O.T.F.Y.P.*, pp. 133 and 137.

On agricultural prices, see in particular: *Economic Survey of Indian Agriculture*, Appendix VI, Ministry of Food and Agriculture, 1961; *Agricultural Price Policy* (mimeographed) February 1963; B. D. Gibbs, 'Agriculture and the Price Mechanism' in *Oxford Studies in Price Mechanism*, The Clarendon Press, Oxford, 1951; S. C. Gupta and A. Majid, *Producer's Response to Changes in Prices and Marketing Policies*, Asia Publishing House, Bombay, 1956; K. Krishnamurti 'Seasonalty in Wholesale Price of Rise' in *Artha Vijnana*, June 1960, N. K. Thingalaya, 'Has the Farmer Benefited from high prices?' in *E.W.*, June 5, 1965, p. 923.

(60) For an analysis of this text, see *New Age* (weekly) of August 4, 1959 and *E.W.* of June 20, 1959, pp. 805 *et seq.* Large extracts from the Kerala law have been published in *Maral*, July-August 1959.

IX

INDUSTRIAL PROGRESS

DURING the second world war, there was a fairly rapid increase in India's industrial production. This expansion and the accompanying rise in profits strengthened the Indian bourgeoisie's positions. But soon after Independence, the rate of progress fell off. In 1950, the production index of big industry was 105 on a basis of 100 for 1946; the average rise over the years 1946–50 had been only 1·2 per cent per year.

In 1950, Indian capitalism seemed incapable of making any major effort towards industrialization and greater national economic independence by means of private investment alone. The most powerful members of the bourgeoisie, who were in close contact with the State, were turning towards the idea of State capitalism. As we have seen in Chapter VII, State capitalism thereafter expanded together with a policy of industrial development.

However, the Indian big bourgeoisie soon demanded that the limits of development in the public industrial sector should be clearly defined. This was done in the Industrial Policy Resolution adopted by the government in April 1948.[1] This Resolution named the industries over which the Central Government 'reserved' right of control (munitions, armament and atomic energy) as well as those the future development of which would be a government 'responsibility' (coal, steel, aviation, petroleum, etc.); all other industries were open to private enterprise. But there was still a possibility of exceptions either way, which limited the true importance of the Resolution. Finally it reserved to the public sector only the industries in which private enterprise was incapable or unwilling to unite the necessary resources or to risk itself. (1) This is what private capital wanted.

In 1956, a new Resolution was adopted. It was apparently more radical than the first, but in fact guaranteed private capital an entry into the closed sectors of industry 'when that is in the national interest'. (2)

When the First Plan was being prepared in 1950–1, most industrial

[1] As often happens, the Resolution appeared to be radical in outline; but in fact it was designed to reassure private capital.

investments were made by the private sector, and the First Plan provides for less private investment than was actually made. In 1952, the Industrial Development and Regulation Act gave the government fairly extensive powers in some industries. (3) It also provided for the creation of a Central Advisory Council and Development Councils. These gave private capital—and especially big capital—an important share in preparing government decisions on matters relating to the largest industries. Private capital gradually conquered other positions in the organizations which mapped out government economic policy or put it into effect.

The following big industrialists had seats on the Central Advisory Committee: B. M. Birla, L. Singhania, and K. Mahindra. D. Tata, G. Birla and L. Lalbhai were at the head of the National Industrial Development Corporation. These are not isolated examples.

Although the Indian bourgeoisie was favourable to some increase in State capitalism—since industrial development could be speeded up—there were obviously going to be clashes between the State and some private interests. But the minor disagreements which did occur did not result in a definite opposition to the State's industrial policy.

Thus, the policy of industrialization practised during the first three Plans was in line with the Indian bourgeoisie's interests, and with those of its richest members in particular.[1]

1. ASPECTS OF INDUSTRIAL EXPANSION SINCE 1951

The table overleaf shows how the production of large-scale industry increased during the first three Plans. It is based on official statistics.

Two lessons can be drawn from this table. First, industrial production was very irregular between 1951 and 1965; the annual rise fluctuated between 2 per cent and 12 per cent. Secondly, the average rate of expansion between 1951 and 1961 was about 6 per cent.

This is the highest rate of expansion over a decade that India has ever known. During the Third Plan, the high rate of expansion has almost kept up, despite the lack of progress in agriculture.

Nevertheless, industrial progress during the three Plans has been far

[1] Pressure from these interests is more evident when the Plan is in action than when it is in preparation, which is one reason why there is often a large gap between industrial targets and actual progress. But it is obvious that the existing social and economic structures must be taken into consideration even when the Plan is being worked out.

INDUSTRIAL PRODUCTION 1951–66

	Index (1956=100)
1951	73·5
1955	91·9
1960	130·1
1961	141·0
1962	153·3
1963	165·8
1964	177·4
1965	186·9
1966*	191·5

*Provisional Estimates.

below the initial estimates as well as insufficient for the country's needs and capacities.[1]

Finally, and this is very important, some recent industrial developments have weakened rather than reinforced the economic structure.

These are the contradictory aspects of recent industrial expansion in India which we shall attempt to account for. First it will be useful to state the essential and relatively constant factors which exercise a favourable or unfavourable influence on the volume of the country's industrial development.

Among the favourable factors—those which would permit a rapid expansion under the right conditions—are the size and variety of India's natural resources; a high potential economic surplus in relation to the National Income; the concentration of the current surplus within a small social group, which should facilitate liquidation; the large labour force, which could easily be incorporated into industry because the workers have behind them a long tradition of craftsmanship; the high urban concentration which should allow India to set up new industries or develop existing ones at less cost than in other economically underdeveloped countries; the large number of executive and industrial workers at management level who are technically competent and some of whom are unemployed and therefore 'available'; the possibility of training new executives on the spot; a basic transport structure which,

[1] As we shall see later, many industries have been unable to reach the targets set by the first two Plans.

despite some defects, is organized on a larger scale and has better equipment than in most economically underdeveloped countries; a stable political structure dominated by one large party with popular support (after Independence at least); an experienced administrative organization; relatively powerful means of State economic control for a weakly developed capitalist economy.

These factors have given India a leading place among economically underdeveloped capitalist countries in the figures of industrial expansion. She is in a very favourable position in comparison with most African and South American countries.

However, there are a number of other factors which held back industrial progress during the period 1950–6. In the first place, social and economic progress has been limited by the fact that the means of production are private property, which prevents a concerted expansion of the productive forces. The effects of this situation lie behind the difference between India's rate of industrial expansion and China's.

More specifically, the first unfavourable factor is the utilization of a large part of the economic surplus for ends other than industrial development; that is to say, for speculation, luxury goods, or prestige expenditure, and for investments which do not contribute to development but are directed to obtaining quick profits for private capital. This sort of action also restricts productive investment as soon as there is the least sign of temporary market saturation. It directs productive investments towards fields which are not always of essential importance for development and may even be detrimental to expansion.

A second unfavourable factor is the existence of monopolies, causing high prices and ensuring large profits. This also tends to limit the market's capacity to absorb.

Thirdly, there is the insufficient rate of increase in agricultural production, which slows down industrial expansion by putting constant strain on the supply of produce to urban consumers, thus provoking price rises and speculation and preventing a normal expansion of productive investments.

On another level, the bureaucracy, corruption and nepotism of the administration are certainly making it difficult to pursue an energetic economic policy. There is also difficulty, resulting from the country's social and political structure, in mobilizing the unemployed work forces.

The Increase in Industrial Production and Demand

The rise in production cannot be understood unless we analyse the material factors in play during the period under consideration. Such an analysis will reveal the influence of economic stimulants more or less independent of the Plans as well as the influence of measures included in the Plans themselves.

Among the external factors which stimulated economic affairs momentarily, the Korean war at the beginning of the First Plan is of some importance. It affected the Indian economy mainly by causing a strong rise in the external demand for Indian products. Exports rose from a total value of 3·3 thousand million Rs. in 1947–8 and 4·9 thousand million Rs. in 1949–50 to 6 thousand million Rs. in 1950–1, and reached 7 thousand million Rs. in 1951–2. The Korean boom also stimulated internal trade by causing massive buying-up of stocks as a security against the lack of goods which would arise from a world war, and by setting off a rise in many prices and incomes. The 12 per cent rise in industrial production for 1951 is the largest during the period considered and is unrelated to the start of the First Plan. The proof that there was no effective internal stimulus at that time lies in the particularly low increases in industrial production during 1952 and 1953.

In 1954, another external factor independent of the Plan caused a rise in industrial production: this was the record harvest in 1953–4, due to excellent weather conditions. The harvest helped to expand the domestic market for textiles and for other industrial goods. It enabled the Government to end what remained of war rationing and to lower food prices in the towns. This increased buying power for industrial goods.

Although factors unrelated to the First Plan were mainly responsible for stimulating production, one factor allied to the plan had a steadily increasing effect: the progressive rise in public expenditure and in the central budget's contribution to net capital formation.

This type of Government expenditure increased by roughly fifteen times between 1950–1 and 1965–6.

After 1954, the demand for industrial products resulting from public expenditure rose very quickly and became one of the main stimulants to industrial production. The expansion of this demand for industrial products continued during the Second and Third Plans; it was of direct benefit to the cement industry, to the steel industry, and to production of equipment for the railways. It was of indirect benefit to many other branches of industry.

During the first years of the First Plan, the increase in demand for industrial products was linked mainly to a restructuring of the utilization of income, due to a rise in real income and to a more or less stable monetary income.

After 1954, monetary income increased rapidly, and as the rise was partly related to the increased public expenditure, it acted as a stimulant to industry.

THE CENTRAL BUDGET'S CONTRIBUTION TO NET CAPITAL FORMATION (IN THOUSAND MILLION RS.) (4)

1950–51	0·98	1958–59	7·88
1951–52	1·63	1959–60	7·09
1952–53	1·42	1960–61	7·64
1953–54	2·05	1961–62	9·01
1954–55	4·38	1962–63	10·92
1955–56	4·49	1963–64	14·50
1956–57	4·97	1964–65 (revised)	15·41
1957–58	7·20	1965–66 (B.E.)	17·43

During the Second Plan, there was a close correspondence between the rate of industrial expansion and the agricultural situation. The first years of the Second Plan were therefore characterized by a particularly low rate of industrial expansion and a relative stagnation of agricultural production. But there was a good harvest in 1958–9 and a high rate of industrial expansion. The interdependence of industry and agriculture shows that the Plan had yet little direct influence over industrial production, which depended largely on market conditions. They, in turn, were dependent on the agricultural situation. Economic development in 1959–60 and between 1962 and 1964 shows that the conditions described above were slightly modified; during these years, the National Income and industrial production rose despite bad harvests.

The effect of the stimulants on industrial production would certainly have been quite small if the material conditions which could permit an expansion had not existed or had not been made to exist. They had always been present in many spheres in the form of partially used productive capacities.

In 1953, according to some estimates, it was materially possible to increase the production of some consumer goods by about 40 per cent by calling upon unused or little-used productive capacities. (5)

At first, only a little of the increase in production was due to corresponding increase in industrial potential, and was mainly the result of better utilization of existing capacities. Later, part of the increase was still due to a better utilization of the existing potential, but new productive capacities were steadily being created. There are still very large production reserves.

The State's Industrial Investments

The total expenditure on industrial development (including direct development, electricity plants and various multi-purpose projects) was high during the First Plan, for it absorbed one-quarter of all spending on development. However, expenditure on industry alone (excluding power and multiple projects) was only 1 thousand million Rs., or 5 per cent of total expenditure; and only 560 million Rs. of this thousand million were actually investments.

The Second Plan provided for a larger sum of public industrial investments. The total for large-scale industry and mining was in fact 8·7 thousand million Rs. (15 times the sum of expenditure during the First Plan) plus about 7 thousand million Rs. for electricity and 900 million Rs. for small industry. (6)

The Third Plan allowed for a new increase in industrial investments. They were to reach 15·2 thousand million Rs. for big industry and mining. (7) But costs were underestimated. In fact, public industrial investments were re-estimated at 18·1 thousand million Rs. (8) This was also an underestimation. The actual sum seems to have been nearer 23 thousand million Rs. (9) The *M.T.A.* puts the sum of public industrial investments during the Third Plan at 17·45 thousand million Rs. (10), which means that in 'real terms' this part of the Plan will only be three-quarters successful; and even that proportion is unlikely.

Private Industrial Investments

Private industrial investments also increased rapidly during the Plans, although at a slightly slower rate than public investments.

During the First Plan, net private industrial investment in fixed capital totalled 2·3 thousand million Rs. (four times the amount of public industrial investments). During the Second Plan, they rose to about 8·5 thousand million Rs. (against the 6·85 thousand million Rs. expected). (11) Net private industrial investments for the Third Plan were first put

at 10·5 thousand million Rs. (12) and then re-estimated at 11·85 thousand million Rs. plus 1·5 thousand million Rs. for renewal investments. (13) The final figure is certainly much higher, but has not yet been disclosed. (14) Private investment after these changes is finally much higher than the figure given by the Third Plan.

We shall see later in what industries the public and private investments were made and how they have helped to alter the structures of production; first, we must examine the conditions under which the expansion in private industrial investments took place.

The government is not in a position to exercise direct control over the amount and allocation of private investments. In principle, it can prevent some types of investment by using certain laws and rulings (especially in the cases of issues on the Stock Exchange, import licences, and permits to create or enlarge enterprises or obtain foreign currency). But it cannot force private industrialists to invest.

The expansion of State expenditure and of the demand for industrial products by the administration and the public sector created favourable conditions for large-scale private industrial investment: both because of the immediate profits to be made and because there were good hopes for the future. The increase of monetary income earned by those who benefited from the increase in public spending also had a favourable influence. These factors had a strong effect on investment decisions. Their influence was particularly great as big capital was in close contact with the public sector and was sure of regular orders and substantial profits. Besides, the public authorities took steps to encourage investment by capitalist enterprises. They used the well-tried methods of State capitalism: price manipulation, subsidies, loans on very advantageous conditions, reductions in customs duties, etc. These methods were used on a large scale.

Without going into great detail, we can give a few examples of how private investments were encouraged. In 1952, a Tariff Commission replaced the former Tariff Board and was to be the main body making proposals concerning Tariffs, prices and subsidies, reductions in excise duties on essential raw materials, buying of large amounts of raw materials on behalf of the Government, putting quota restrictions on imports etc. to aid new industries.

Some fifty industries were helped by the Tariff Commission's recommendations. Among them were industries producing consumer goods; but most produced equipment, raw materials or semi-products (special

types of steel, non-ferrous metals, various chemical and medical products, machines for the textile industry, etc.). A list of these industries is to be found in the Tariff Commission's reports and 'Reviews of Work'. (15)

The presence of many foreign enterprises in India caused some problems. The Tariff Commission sometimes refused to set a protective customs duty on products which were made in India by foreign firms, on the ground that the protection would favour the foreign firm rather than any new Indian enterprise.

Various budgetary measures were also taken to promote an increase in private investments. Some gave tax exemptions to new enterprises or made it easier to transfer dividends from one company to another. Tax rulings on reserves, new investments and interest payments were made to the same end. These advantages were also extended to foreign firms in India on the principle of 'non-discrimination'.

Finally, some new financial institutions were set up to provide more funds for industrial enterprises.

New Financial Institutions

The oldest of these institutions is the Industrial Finance Corporation (I.F.C.) set up by law in 1948.[1] This State Corporation specializes in the financing of large industrial enterprises by according loans; only in exceptional circumstances does it subscribe to the capital of the companies it aids.

The National Industrial Development Corporation (N.I.D.C.) was created at the end of 1954 and the Industrial Credit and Investment Corporation of India (I.C.I.C.I.) at the beginning of 1955; both were designed to give further financial resources to industry, but these institutions took the form of commercial companies. The functions of the N.I.D.C. are not precisely stated. It really began to work at the beginning of the Second Plan, having been given funds of 600 million Rs. under the Plan which were to be distributed in both the public and the private sectors. It may control part of the capital of the enterprises it aids

[1] The Indian Government had considered creating this institution even before Independence (*v. Economic Development in India, 1947–56* by C. D. Deshmuk, Bombay, 1957, p. 111). The Reserve Bank was asked to draw up a project finished in 1946 and adopted in 1948. Thus there was some continuity in the policy of State capitalism before and after Independence, although some material aspects of the policy itself changed considerably with the end of British rule.

and may itself form new companies. Several big capitalists are on its Board of Directors.

The I.C.I.C.I. is principally designed to assist private industry and has received large foreign and governmental aid. It is an organization typical of the collaboration between monopoly capital and State capitalism. It is managed by big capitalists and gives priority aid to companies run by the main financial groups. Its most original characteristic is that it uses mainly public funds to aid private enterprises. The I.C.I.C.I. and the N.I.D.C. also give technical and administrative aid.

In 1955, the Small Industries Corporation (S.I.C.) was set up with a capital of 1 million Rs. provided by the Government. Its object is to help small and medium industry by means of financial loans. It has operated on a fairly limited scale despite the size of this sector and although there have been numerous official declarations favourable to small industry; it has worked on a much smaller scale than the above-mentioned Corporations. The S.I.C. also gives technical aid.

The State Financial Corporations (S.F.C.) are another type of institution designed to promote industrial investments. They were created under a law passed in 1951. But it was not until 1960 that every State had an S.F.C. The last were set up in Kashmir, Mysore and Gujarat.

Some other public financial organizations should also be mentioned as they have taken part, at least indirectly, in promoting the expansion of private industrial investments. First there is the Life Insurance Corporation, created in 1960 when Life Insurance Companies were nationalized. The L.I.C. has put increasingly large sums at the disposal of private industry. This it has been able to do because the volume of its transactions has grown rapidly. It has played an important part in the expansion of private industrial investments. Its own investment policy is determined by questions of security and profit and is not related to economic planning. All decisions are taken by its Investment Committee, and it is widely held that its investment decisions are influenced by the biggest financial interests. (16)

The State Bank of India is another recent development; it was formed in 1955 by nationalizing the Imperial Bank. Officially, its main objective was to increase the financial possibilities open to the rural sector, and not to aid industry in particular. But, in practice, the industrial and urban sectors have been given considerable assistance. Most of the credits given to industry by the State Bank are on short term and theoretically should not be used to finance lasting investments. But there is every

indication that at least some of the credit has been more or less tied up and has been of direct or indirect help to the expansion of industrial investments.

In June 1958, a Refinance Corporation was created, designed to develop short- and middle-term industrial credit by means of re-discount operations.

Lastly, the Unit Trust was set up during the Third Plan. It operates on the financial market so as to aid industrial private investments.

These are the main institutions created between 1950 and 1965 to facilitate the expansion of private industry. It is not possible to say exactly how much direct or indirect aid they have given. But their share in the capital formation of the modern industrial sector is probably large. They are of particular importance in providing foreign currency, which has been of immense help in recent years. Their importance will certainly grow in the future. Thus, the State has set up a structure of institutions which can accelerate capital formation in private industry by providing resources originating from public funds, from personal savings and from foreign financial aid. They supplement private industry's own resources of self-financing and direct recourse to the capital market.

Private Industrial Investments, the Expansion of Profits, and the Money Market

Official estimates give the following pattern of gross investment by private modern industry:

THE FINANCING OF GROSS INVESTMENTS IN THE PRIVATE MODERN INDUSTRIAL SECTOR (IN MILLION RS.)

Sources	*1st Plan*	*2nd Plan*	*3rd Plan (Previsions)*
Financial Institutions	180 (5·3%)	800 (9·2%)	1,300 (10·4%)
Direct State Financing	260 (7·6%)	200 (1·8%)	200 (1·6%)
Market Issues	400 (11·8%)	1,500 (8·5%)	2,000 (16·0%)
Self-financing	1,500 (44·1%)	4,000 (47·0%)	6,000 (48·0%)
Foreign Investments	450 (13·2%)	2,000 (23·5%)	3,000 (24·0%)
Others (17)	610 (17·9%)	—	—
Total	3,400	8,500	12,400

As can be seen, self-financing is the major financial resource and becomes progressively stronger. Foreign investments lie in second place

and have the fastest rate of increase.[1] Financing by use of the capital market is in third position.

The Second Plan predicted that foreign investments during the period 1956–61 would total 1 thousand million Rs.; the actual figure was 100 per cent greater. These problems will be re-examined in Chapter XI.

The considerable importance of self-financing—which increased fourfold during the first three Plans—is related to the quick rise of profits over the same period. An increasingly large proportion of these profits was reinvested.[2]

This partly explains why industrial securities did not follow the same pattern as profits. The index of variable dividend industrial securities was about 164 in 1964–5 (on a basis of 100 in 1952–3).

Financing of industrial investments was, then, in rapid expansion between 1960 and 1965. One of the most important factors (and of the greatest importance to future development) was the expansion of the financial market. This has opened up new horizons for Indian capitalism. The market expansion[3] has served the interests of the big Indian financial groups as well as those of the big foreign companies, and it has been made possible by foreign aid. We shall return to this question when the financial resources used for economic development as a whole are studied.

2. THE SHAPE OF INDUSTRIAL DEVELOPMENT

If we are to see how Indian industry has developed, we shall also have to analyse the forms which its development has taken. We shall study the priorities of industrial development, the technical level of the industries taking part in the expansion, and the respective activities of the public and private sectors.

[1] The financing of private foreign investments by foreign capital is even greater than the sum given here, for some of the credits obtained from financial institutions originate from abroad. Likewise, part of the resources obtained from market issues may correspond to foreign investments or to reinvestments of profits made in India by foreign capital.

[2] Enterprises taking the form of companies invested on average 40 per cent of their net profits during the First Plan. Statistics show that these companies tended to invest 80 per cent of their additional profits (*v. Business Saving in India* by H. Mazumdar, Groningen, 1950, pp. 183 and 202).

[3] Market expansion was not rapid enough to satisfy demand at the start of the 3rd Plan. The financial institutions' share of market-issue and loan financing rose from 62 per cent in 1961 to 77 per cent in 1963.

Development Priorities

Industrial development priorities are the main factors which determine future industrial expansion. If the right industries develop quickly, the expansion will go ahead; otherwise, there will be bottlenecks or new import crises leading to an increased deficit in the balance of payments.

We shall pick out the essential problems from the multiple aspects and complexities of industrial priority and attempt to show how the government reacted and how the economy actually developed.

Main Principles

There is no clear statement of policy on industrial priorities in the First Plan. The government was interested in adapting the economy to the needs of the moment rather than in laying the foundations of future development. (18)

The unused productive capacities of the processing industries producing consumer goods, and their fear of developing production too quickly in relation to the market, explain why investments in this sector were relatively low.

However, investments in the industries producing means of production (steel, the engineering industries, petroleum refineries, heavy industry, cement, etc.) accounted for about 75 per cent of total investment. But, the total being low, the credits provided for the basic industries were very small.

For an analysis of expenditure on industrial development during the First Plan see the table on p. 247.

The Second Plan had very different ideas about the industrial sector. It clearly stated that basic industries should have immediate priority in order to provide for a constant increase of the country's 'self-equipment'. This is certainly a correct view of industrial development needs, especially as India has the natural resources which could allow her to set up a powerful metallurgical and engineering industry.[1]

Professor P. C. Mahalanobis prepared the first draft of the Second Plan and to him should go the merit of clearly stating the problem of priority development for the basic industries. He continued to defend his ideas (19) when the economic trend of the Second Plan seemed to be

[1] This had already been demonstrated from a technical point of view by the eminent Indian specialist Professor Meghnad Saha in his speeches to Parliament and in his articles for the Indian review *Science and Culture*. The Indian Science News Association, which publishes the review, has published a collection of Professor Saha's writings in pamphlet form, entitled *Rethinking Our Future*.

turning against them. Theoretically, Professor Mahalanobis's projects were included in the final version of the Second Plan, but not on the scale which he recommended.

PUBLIC AND PRIVATE INDUSTRIAL INVESTMENTS DURING THE FIRST PLAN (IN MILLION RS.)

	Forecast in the First Plan	*Actual public and private investments*
Metallurgical industries	850	610
Petroleum refineries	640	450
Chemical and pharmaceutical industries	260	270
Engineering industries	530	460
Cotton	90	200
Sugar	1	50
Rayon	165	80
Cement	177	175
Paper and cardboard	74	120
Electricity (private sector)[1]	160	326
Others	323	189
Total	3,270	2,930

(*v. India 1960*, p. 301.)

Out of the 10,940 million Rs. of investments in big industry for the period 1956–61, 9,150 million Rs. (or 86 per cent of a much larger sum than that of industrial investments during the First Plan) were to be made in the basic industries.

Overleaf is an analysis of the Second Plan's industrial investments.

The actual figures are noticeably different from the targets.

The Third Plan had much the same objective as the Second. It sought to increase the tempo of development in the basic industries. We shall see later how the production of various goods increased during the Third Plan (and during the previous ones). First, it should be recalled that the Third Plan seriously underestimated the amount of investment necessary for attaining its targets. This limited the value of the initial estimates.

[1] To this must be added public sector development expenditure on electricity (1,530 million Rs. actually spent against an expected 1,785 million Rs.) as well as a part of public spending on multi-purpose projects (4,320 million Rs. against an expected 4,690 million Rs.) (*v. India 1960*, p. 301.)

PUBLIC AND PRIVATE INDUSTRIAL INVESTMENTS DURING THE SECOND PLAN

	Forecasts		*Results*	
	Millions Rs.	*per cent of total*	*Millions Rs.*	*per cent of total*
Metallurgical industry	5,025	45·9	7,700	52
Engineering industries	1,500	13·7	1,750	11·9
Chemical industries	1,320	12·0	1,400	9·5
Cement and fire-clay products	930	8·5	600	4·1
Petroleum (refineries)	100	0·9	300	2·0
Paper and cardboard	540	5·0	400	2·7
Sugar	510	4·7	560	3·8
Natural textiles	363	3·3	500	3·4
Artificial textiles	240	2·2	340	2·3
Others	415	3·8	1,150	7·8

(*v. T.F.Y.P.*, p. 456.)

Here is the table of industrial investments which reflects the priorities decided upon:

PUBLIC AND PRIVATE INDUSTRIAL INVESTMENTS ACCORDING TO THE THIRD PLAN'S FORECASTS (IN MILLION RS.)

Metallurgical and engineering industries	12,000
Chemical and similar industries	6,500
Textile industries	1,250
Food industry	750
Mining	4,050
Electrical power	9,750
Others (including housing necessary for some industrial projects)	450
Total	34,750

(*v. D.O.T.F.Y.P.*, pp. 187 and 208.)

The Priorities in Practice

In practice, the development of the various branches of industry depends on the capitalist groups concerned and not mainly on the Plans, however feasible they may be from a technical point of view. These groups' interests are openly expressed in the private sector by decisions on investments and prices. Such decisions are, of course, subject to official rulings, but it should not be forgotten that the groups often take part in working out official measures. The interests are less openly expressed in the public sector, but they can bring pressure to bear on the government when they want the Plan adapted to their requirements; this is more easily done when the Plan is being put into effect.

Thus the priorities in practice result mainly from the influence of the economy's internal forces and from the actions of the big financial interests; if the latter disagree with the priorities requested, some sort of compromise has to be found.

The table on the following page shows the expected and actual values of production as well as the progress made (given in percentages). (20)

The most rapid development has been in the industries producing machines (machine tools, machines for the cement industry and sugar industry, etc.), and in chemicals and fertilizers.

Some industries not on the table have been expanding rapidly. For example, the production of locomotives and wagons, non-existent in 1950–1, reached respectively 250 and 33,000 units per year during the Third Plan. Production of bicycles, automobiles, radios, ventilators, and refrigerators also increased rapidly.

In the basic industries, petroleum products and cement were expanding quite quickly. But electricity,[1] the metallurgical industries,[2] and the equipment industries progressed slowly in relation to needs. The Third Plan proposed to bridge the gap, but progress is still not up to the required level.

Finally, it should be noted that the industries producing mass-consumption goods developed even more slowly than the others, although

[1] In 1961 and after, some regions (Bombay, Calcutta and the Punjab in particular) were threatened with insufficient supplies of electricity.

[2] This is why India had to import 860,000 tons of steel in 1959 and a million tons in 1960. The Second Plan estimated that steel importation—except for special steels—should cease and exportation begin in 1961. Although production was rising fast at that date, India continued to import 1 thousand million Rs. per year of iron and steel.

THE VOLUME AND PROGRESS OF PRODUCTION IN VARIOUS BRANCHES OF INDUSTRY 1951–66

Production	Unit	1950–1951	R. 1955–1956–	% of increase	Plan 1960–1961	R. 1960–1961
Electricity (installed capacity)	MkW	2·3	3·4	48	6·9	5·6
Coal	MT	32·8	39·0	19	60·0	55·5
Finished steel	MT	1·0	1·3	30	4·3	2·4
Aluminium	Thousand T.	3·7	7·3	99	25·0	18·3
Machines for the cement industry	value in — M Rs.	—	4·0	—	20·0	6
Machines for the sugar industry	value in — M Rs.	—	1·9	—	25	44
Machine tools	—	3	8	170	30	70
Ball-bearings	1,000,000	0·1	0·9	800	2·1	3·2
Electric motors (200 hp or less)	1,000 h.p.	100	270	170	600	728
Transformers (33 kwh and less)	1,000 kVa	179	625	249	1,360	1,413
Ammonium sulphate (amount in nitrogen)	1,000 T	9	79	778	305	99
Phosphates (amount in P_2O_5)	1,000 T	9	12	33	72	54
Sulphuric acid	1,000 T	101	164	66	470	368
Bicycles	1,000 Units	99	513	420	1,000	1,071
Motor-cars[1]	1,000 Units	16·5	25·3	53	57	55·2
Cotton goods	M — metres	4,215	6,260	49	7,770	6,738
Sugar	MT	1·1	1·9	73	2·2	3·0
Cement	MT	2·7	4·7	71	13·0	8·0
Refined petroleum products	MT	—	3·6		4·3	5·8
Paper and cardboard	1,000 T	114	187	64	350	350

Production	R. 1961 % of increase over		Plan 1965–1966	% of increase forseen by the 3rd P. 1965–66	Results of the Third Five Year Plan			
	1950 1951	1955 1956			1961–2	1963–4	1964–5	1965–6
Electricity (installed capacity)	143	65	12·7	127	6·0	7·75		10·1
Coal	71	44	97·0	76	55·2	66·3	64·4	70·3
Finished steel	140	84	6·8	183	3·0	4·3	4·4	4·5
Aluminium	400	153	80	332	19·9	54·0	55·1	60·5
Machines for the cement industry		50	45	650	9	10	21	32
Machines for the sugar industry		160	100	130	48	62	89	76
Machine tools	2,200	775	300	330	93	201	258	293
Ball-bearings	3,100	250	14	340	—	—	5·9	—
Electric motors (200 hp or less)	600	170	2,500	243	873	1,182	1,430	1,756
Transformers (33 kwh and less)	670	126	3,500	150	1,955	2,758	3,593	4,460
Ammonium sulphate (amount in nitrogen)	1,000	25	800	700	145	219	234	227
Phosphates (amount in P_2O_5)	500	350	400	640	63	108	132	121
Sulphuric acid	264	124	1,250	240	430	692	695	655
Bicycles	980	109	2,000	90	1,043	1,259	1,422	1,582
Motor-cars[1]	234	118	100	81	54·6	56·7	70·9	70·7
Cotton goods	60	8	8,460	25	7,115	7,410	7,744	7,436
Sugar	173	58	3·5	17	2·7	2·6	—	3·6
Cement	196	70	13·0	62	8·28	9·42	9·8	10·8
Refined petroleum products		61	10·8[2]	86	6·2	7·9	8·5	9·4
Paper and cardboard	207	87	700	100	367	478	493	558

R=Result
Sources: R.F.F.Y.P., S.F.Y.P., T.F.Y.P., M.T.A., M.F.F.Y.P., E.P.W., and 'Economic Survey 1964–5' — and 1965–6.
[1] Including commercial vehicles, jeeps, etc.
[2] A revised version put the capacity to be attained at 17·25 million tons.
[3] Provisional estimate.
[a] M.T.A., pp. 24 *seq.*
[b] *ibid.*, 300 hp and less.

they had shown a rapid increase during the First Plan. The lack of solvent demand often lies behind the slow-down.

The statistics show that in some fields impressive progress has been made, but expansion has not kept pace with requirements. Imports of means of production have not been reduced and this has caused increasing difficulties over the balance of payments and has meant that some targets have had to be reduced. As we shall see in Chapter XI, the final result of industrial progress has been to increase and not decrease the imbalance of the Indian economy.

This is because there was no serious effort to develop productive capacities and to prepare for the future until the Second Plan. The situation changed with the Second Plan, mainly owing to State investment and the development of the public sector. But the effort to expand the country's industrial basis was not pushed forward strongly enough. Industries essential to future development—heavy engineering, foundries and forges, production of heavy machinery for mining, the metallurgical industries, and the big chemical industries, production of ferrous alloys, of big electrical equipment, etc.—were only just getting under way ten years after Independence, although the projects had been ready long before. At last, in 1957, agreements were concluded with the Soviet Union and the building of an industrial complex was decided upon which would produce equipment for mining, smelting steelworks and heavy presses, coke furnaces, etc. Production was to begin at 45,000 tons a year and to be increased to 80,000 tons. Even so, this was a modest start.

A large-scale effort to construct factories which could build and equip other factories came at last with the Third Plan. The plants at Ranchi, Durgapur, Hardwar, Hyderabad and Bhopal which are equipped for machine construction, for producing big mechanical-industry equipment, and for the production of big electrical machinery[1] are of great importance although they do not meet requirements. There is still too little effort in this field (21) and what has been done was not planned in relation to the development of industrial projects. India still depends to a large extent on foreign aid in this sphere, which limits her industrial development capacities. (22)

[1] These developments were made possible by help from the U.S.S.R. and from Czechoslovakia. Most of the 3·8 thousand million Rs. which Russia loaned to India were used for building heavy industry and power plants. In 1963, Soviet aid helped to build 32 big enterprises. New agreements were concluded in the following years.

One negative aspect of industrial development between 1950 and 1965 is the creation of a large number of industrial enterprises producing consumer goods which are not of major economic importance and which are of use mainly to the richer classes. These enterprises often use imported semi-products, sometimes only assembling or conditioning them. Many of these firms have been set up with the aid of foreign capital. This inferior form of industrial 'development' has taken place outside the context of the Plans and is even contrary to planning specifications.

The development of such industries is detrimental to the economy because import needs are increased. Imported raw materials, semi-products, spare parts, etc. weigh heavily on the balance of trade and reduce the currency available for importing the equipment needed for industrialization. Often, contracts force the new firms to buy from their foreign collaborators alone, which rules out the possibility of using domestic products. If the authorities ordered these firms to reduce their turnover, unemployment would increase and equipment would not be used to the full; this would have unsatisfactory social consequences, even though orders to slow down would mean quicker economic development. In other words, the expansion of industries producing consumer goods of secondary importance immobilizes large amounts of capital and leads to a '*pseudo-industrialization*'. *True industrialization is slowed down and may even be halted.*

Thus, although industrial production as a whole has increased and there have been positive structural changes, what has been done is not up to India's requirements. Furthermore, the importance of past achievements is jeopardized by the negative influence of private investments unrelated to the Plans.

The Technical Basis of Industrial Expansion and the Official Attitude towards Small-scale Industry

The progress of large-scale industry can be seen from the table on p. 236. But in a country like India, where in 1950 seven-thirteenths of industrial production came from small-scale industries (building excluded), large-scale industry alone will not give a true idea of economic development. The volume of industrialization, its technical characteristics, and its influence on employment largely depend on the progress of small industries. It is therefore essential to see how small-scale industry has developed since 1951.

According to National Income statistics, the technical basis of industrial expansion during the first three Plans apparently lay in large-scale industry alone; small-scale industry's production (building included) fell from 60 per cent of all industrial production in 1950–1 to 37 per cent in 1963–4. But the estimates for net value of production in small-scale industries during recent years are based on uncertain methods of calculation and do not correspond to what the statistics suggest. It would seem preferable to ignore these estimates. But that leaves us with the problem of how to re-estimate small-scale industrial production.

The official attitude was that small-scale industry should undergo considerable development, especially in the field of handicrafts and village industries. This was decided for many reasons. Some are related to Gandhian concepts and stem from hostility towards urban development and concentration of economic power. These ideas are to be found in the Five-Year Plan Reports. Other reasons are related to unemployment. It seemed easier to increase employment by favouring small-scale industry than by expanding large-scale industry, for small-scale industry requires more manpower to increase its volume of production and demands a smaller investment per worker than does large-scale industry.

The methods used to encourage small-scale industry are in line with this conception of its utility: 'internal protection' (by forbidding the expansion of rival modern industries, for example), subsidies, financial aid, tax rebates, etc. Measures to ensure the technical progress of small-scale industry took second place, although they alone would give the development of small industry a sure economic foundation.

Thus, the official view underestimated small-scale industry's capacity to take part in industrialization. Small-scale industry should be used to give an economy of investment per unit of production to cut construction delays, prevent bottlenecks, and employ local resources to the full.[1]

[1] The plan to develop a 'perfected' spinning wheel on a large scale (announced while the Second Plan was under study) is typical of how 'economy of investment' was neglected. This spinning wheel, the *Ambar Charkha*, had a capital output coefficient of 5 against a coefficient of 2 for investments in spun yarn. Its productivity was so low that the production of yarn, although of poor quality, had to be subsidized (*v.* C. Bettelheim, *Studies in the Theory of Planning*, Bombay, 1959, pp. 344 *seq.*). Many of the projects considered at this period in order to help crafts and small industries overlooked the high cost of investment and transportation which they would have required.

The Cost of Official Projects

The cost of putting the official ideas into action was very high, especially when compared with the moderately successful results. It can only be measured in part, by calculating State expenditure on the projects, which totalled 336 million Rs. during the First Plan and 1·8 thousand million Rs. during the Second Plan. The Third Plan allowed for 2·6 thousand million Rs. to be spent in this way, but this figure will not be reached. Private investments made by small craftsmen and small entrepreneurs with State assistance should be added to these sums. However, their investments often had little or no result.[1] Investments of this type probably totalled as much as the public expenditure quoted above.

Results in the Small-scale Industrial Section and the Economic Impact

As we cannot use global statistics for the share of the National Income provided by small-scale industry, we are forced to give information about particular activities.

Some of the largest increases were in the textile industry. The production of cotton goods in this sector of small-scale industry rose from about 800 million metres in 1950–1 to about 3·1 thousand million metres in 1964–5.

Other industries which progressed favourably were tanning, handicraft production of oil and sugar (*Khandsari* and *Gur*), rice husking, and one or two more. Small-scale urban industries were also in expansion (since towns and big industries were growing) as were small modern industries (bicycles, sewing machines, etc.). But they did not expand to the same degree as large-scale industry; small-scale modern industries in particular are known to have undergone only a relatively slight expansion.

The considerable possibilities available through small innovations, partial modernization, or combination with large-scale industry were little explored. This is a major weakness of India's industrial development.

It results from a conservative and unjustified conception of what small-scale industry should undertake. Too often industries which are dying out or which have no economic future have been given protection,

[1] Thus, yield from investments in *Khadi* (traditional woven stuffs) and in the *Ambar Charkha* has been reduced because of insufficient markets, and in the latter case also by the wheel's poor technical qualities.

whereas those which could be of positive use to economic development have not been given technical help. Some small industries could be useful as aids to agriculture, by producing better agricultural implements, for example, or by transforming agricultural produce.[1]

The relatively slow progress of agriculture and the rural market's slow rate of expansion have also hampered the development of small-scale industries. The two factors are, of course, related.

The major part of small-scale industrial development has taken place in the towns. These enterprises serve the needs of the urban middle classes, whose incomes are increasing, and are also ancillary to large-scale modern industry, for which they produce small tools and spare parts. But the large-scale industries themselves provide stiff competition and are not very willing to buy from the small-scale industries.

If during the period 1951–65 there was some development of small-scale industry, little progress was made on the technical side. The social effects of development were probably greater than were the technical advances. The class of small capitalists has been in expansion, thus enlarging the basis of Indian capitalism, which, however, is still narrow.

Some new small industrial concerns have been created by or with the help of the above-mentioned State financial institutions and the National Small Industries Corporation. But the new industries have low capital assets and generally make rather low profits. (23) The small-scale modern industries will certainly continue to expand in the next few years, helped foward by the development of large-scale industry, of the towns, and of State assistance. The resulting small industrial capitalism will either act as an offshoot of big capitalism, or else it will be dependent upon how much the well-off urban classes spend on consumer goods.

Monopoly capital is continually gaining ground in the big modern industries. (24) This reduces the possibilities of autonomous industrial expansion based on the exploitation of local resources; it also prevents new techniques from spreading across the country and has therefore a negative impact on the standards of living. Monopoly capital's power is allowed to grow because the agrarian structure makes development of the rural productive forces difficult and because internal reinforcement by State capitalism strengthens its position. The domestic market is in

[1] A report by U.N. agricultural experts emphasizes that traditional techniques cause a wastage of agricultural produce and that much is to be gained by the small-scale industries if they would use better techniques (*v. TAO/IND/31*, p. 36). This view is confirmed by China's success in the same field.

turn prevented from expanding rapidly and potential sources of capital accumulation are diverted towards trade, speculation and money-lending. This has been the background to development in the public industrial sector.

The Public Industrial Sector

We have seen in Chapter VII what percentage of total industrial investments was constituted by public industrial investments. We have also seen that the State industries furnish a small proportion of the aggregate value of industrial production. However, global percentages do not fully represent the public industrial sector's importance nor do they explain how industrial development is taking shape.

One must also take into consideration the industries to which public priorities have been extended, one of them being electrical power. The State's share in boosting the productive capacities of this industry increased from about one-quarter in 1950–1 to about three-quarters in 1965–6. But unfortunately, the programme of electrification was worked out and put into action under difficult conditions. First of all, there were technical difficulties. The projects were drafted in the main by big English firms which were not interested in reducing costs to a minimum and which apparently underestimated the technical requirements of the services to be supplied. As a result, there were serious upsets. The programme was further jeopardized by a revision of the initial project while construction was in progress and by the postponement of some of the plans owing to difficulties in importing equipment. Finally costs were increased and the efficacy of investments in this sector reduced.

There was little direct State intervention in the mining industries during the First Plan. The State undertook and financed geological research, which was carried out by four State organizations working in collaboration: the Geological Survey of India (G.S.I.), the Indian Bureau of Mines (I.B.M.), the Petroleum and Natural Gas Commission, and the National Laboratories. Important advances were made in locating and surveying coal, petroleum, lead, zinc, and manganese resources.

In the field of petroleum, the State first collaborated with the Standard Vacuum Oil Co. Ltd., which had been given permission to undertake research through agreements concluded in 1953 and in 1955. Most of the exploration was carried out in West Bengal. The State paid 25 per cent of the expenses incurred. Research and development licences were also granted to the Assam Oil Co., which is affiliated to Burmah Shell.

In 1955 there was a change of outlook, with the creation of the Petroleum and Natural Gas division of the Ministry of Natural Resources as well as a Ministry of Fuel and Mining and a Petroleum and Gas Commission. It was now the State itself which undertook research work with technical aid from other countries and especially from the Soviet Union. This research, which is undertaken independently of any private company and for which the Government has its own field teams, has already given important results; the future seems hopeful in this field.

An important decision taken during the Second Plan was that two petroleum refineries should be constructed in the public sector, one at Nunmati (Assam) with Rumanian credits and technical aid, the other at Barauni, in the State of Bihar, with Soviet aid. At the end of the Third Plan, the former had been working at full capacity (750,000 tons) for two years and the latter at a capacity of 3 million tons. Two other State refineries are under construction; one in Koyali, the other in Cochin. In this way, the Government avoids being entirely dependent on the big international oil companies, which was the case until the last few years.

Government research in petroleum, the exploitation of petroleum resources by State industry and the construction of State refineries are important steps towards a proper use of the national resources. Until recently, petroleum resources were either under-exploited or completely unknown. Important discoveries were made in 1959 and in 1960 by Indian and Soviet geologists. The Assam Oil company's reserves are thought to be capable of yielding 2·5 million tons per year of high quality petroleum and about 3 million cubic metres of gas per year (which is equivalent to one million tons of petroleum per year); but in 1959, Assam Oil was extracting only about 430,000 tons.

It is probable that the big international companies which have obtained permits to make explorations did not push ahead with them at full speed.[1] Exploration between 1951 and 1957 gave poor results, although research done by Indian, Russian and Rumanian geologists over a period of three years located large petroleum reserves in the region of Cambay (near Bombay) and natural gas in the Punjab.

[1] The international oil companies have sometimes forced the Indian Government to accept very high prices for their products. In 1956, the price of petrol (excluding transport costs and internal taxes) was 35 per cent higher than the London price, although sources of supply were near at hand. In June 1957, the oil companies called for a new rise in prices which was to cost Indian consumers 60 million Rs. The oil companies' profits are transferable and weigh heavily on India's Balance of Accounts. The oil companies had to cut the price of raw petroleum in 1960 after India had signed agreements with Russia to import Soviet petroleum.

The government decided to form a company exclusively controlled by the Petroleum and Gas Commission in order to exploit these resources. It also decided to put a check on the activities of foreign oil companies. In June 1959, the Indian Oil Company was set up by the State to import and distribute petroleum.

Thus, India began to create a fairly large petroleum industry in the space of a few years. This is of considerable importance to the Indian economy, since petroleum imports had been increasing rapidly. In 1963–4, they had risen to nearly one thousand million Rs. In 1959 the Minister Malaviya predicted that by the end of the Third Plan, 60 per cent of export receipts would have to be used for petroleum importation unless the national industry was developed at high speed. (25)

This was attempted, as we have said above. The Third Plan provided for about 1·15 thousand million Rs. to be spent on petroleum production and research and the sum was later increased to about 2 thousand million Rs. The Plan estimated that 10·5 million tons would be needed in 1965 and 11·4 million tons in 1966 (against 3·9 and 7·9 million tons in 1951 and in 1962 respectively). (26) These estimates proved to be too low. In 1964, the Gauhati refinery in Nunmati already had to work above normal capacity.

In 1966, the public sector should have a refining capacity of 9·5 million tons, and the private sector a capacity of 7·75 million tons; in all, a total of 17·25 million tons. This is expected to cover the demand for 1966.

Chemico-petroleum plants are under construction near the new refineries. They will provide fertilizers, synthetic rubber and textiles, plastics, detergents, etc. Only some of these plants will belong to the public sector, which is collaborating with private capital. The largest complex is that of Koyali in the State of Gujarat; another is to be built during the Fourth Plan at Barauni and two others on the coast at Madras and at Haldia. (27)

Oil India Ltd. (a joint enterprise of the Assam Oil Co. and the Indian Government) should have an annual output of 2·75 million tons of raw petroleum from the Naharkatiya fields. The Nunmati and Barauni refineries are managed by a State-owned company, the Indian Refineries Private Ltd. Co., with a capital of 300 million Rs.

The Second Plan called for more State activity in the other mining

industries; in the diamond and copper mines, for instance. But the biggest change was to be in the coal-mining industry. At the start of the Second Plan, a special organization was set up, managed by the Coal Production and Development Commissioner. Its task was to supervise the existing State mines and to manage any that might be sunk in the future. A Coal Controller was put in charge of the private coal-mining industry.

According to the Second Plan's initial estimates, coal output should have risen to about 60 million tons in 1960–1, 16·5 millions tons being provided by the public sector. In 1955, the public sector was producing 4·5 million tons of coal out of a total of 38 million tons.

Also, a big public sector installation for selecting and washing coal (with a washing capacity of 2·2 million tons) was to be added to the three plants already existing in the private sector. The new plant would serve the Rurkela and Bhilai steelworks. A similar plant near Durgapur was also planned. There was considerable delay in carrying out these projects. They were not ready at the end of 1959, whereas the new coke furnaces had already been installed. The increase in the internal demand for coal convertible into coke and a policy of exporting first-class coal caused serious difficulties for consumers. Fertilizer production at Sindri suffered, as did steel production.

In 1960–1, only 12 million tons of coal were produced in the public sector out of a total production of 54 million tons; that is to say, 10 per cent less than expected. The Third Plan demanded increased production in the public sector, for which 1·4 million Rs. was provided. It was estimated that total output would reach 98·6 million tons. Later, production targets were reduced as consumption of coal was lower than foreseen, and in 1964–5, production reached only 64·4 million tons. One reason for this was the substitution for coal of other combustibles, which was encouraged by the authorities in order to reduce the volume of transportation.

The main developments in the non-extractive industries in the public sector were as follows. During the First Plan, about a dozen industrial enterprises were built for the Central Government by the Provincial administrations. The large enterprises created in the public sector between 1950–1 and 1955–6 are the Ammonium Sulphate factory at Sindri, the locomotive plant at Chittaranjan, a factory producing railway wagons, one producing machine tools, the Hindustan Shipyard and a factory producing electronic material. At the end of the First Plan, a steelworks

with a million-ton capacity, built by Krupp-Demag, was under construction at Rurkela. Most of these factories demanded fairly heavy investments and had to be built rapidly to avoid economic complications and currency losses through inadequate production.

On the whole, the projected industrial development in the public sector during the First Plan was only partially successful.

The Second and Third Plans, placing more emphasis on the development of basic industries, provided for a bigger investment effort in the public industrial sector. About sixty industrial enterprises were to be built or developed by the State during the Second and Third Plans. Among those to be built or to start up or expand were three steelworks: one in Bhila, constructed with Soviet aid, one in Durgapur built with British aid, and the third in Rurkela, which was already under construction during the First Plan. A lignite mine with a capacity of 3·5 million tons and an industrial plant based on the use of lignite, an enlargement of the Sindri fertilizer factory, a new factory at Nangal producing fertilizers and heavy water, another fertilizer factory at Rurkela (the total increase in capacity was to be 230,000 tons of nitrogen), an expansion of the naval dockyards and locomotive and railway-coach factories, a new coach factory, an enlargement of the machine tools factory, a new factory producing heavy electrical equipment, etc.—about forty enterprises were to be built or developed by various States.

The projected investments in the public industrial sector were high and demanded considerable importation. Much of the financing was to come from foreign assistance. In fact, the States took care of what may be called the 'industrial infrastructure' (28), without which the rest of industry could not easily expand, and which includes industries shunned by private capital because they give low, long-term profits.

The preceding observations all tend to prove that one end of State capitalism in India—in the form it has taken during the Second and Third Plans—has been to set up the basis of a regular and concerted industrial development.

The results have been less praiseworthy than the attempt itself, for the Plans have continually come up against private capital with its desire for quick, high profits. The government's policy was not to deny private capital the possibility of high profits (although this would in fact be necessary for really satisfactory development), nor has the government itself looked for easy profits. It has simply tried to avoid the worst injustices and abuses which may be caused by the greed of private capitalists.

State capitalism has certainly accomplished part of its task in expanding the basis of Indian industry's self-equipment, but the movement has not been taken far enough. It has not prevented disproportions and contradictions from developing, with the result that some of the effort has been wasted.

Finally (and we shall return to this point in Chapter XI), *disproportions have been increased* rather than diminished, despite what has been done to promote self-equipment. A notable example is the overgrowth of some consumer industries. Their development has not kept step with that of the basic industries, which have lost way, causing serious shortages of electricity, of steel, etc. Expansion has consequently been checked and the regularity of the production cycle endangered. For instance, there have been many temporary stoppages in various industries and in big industrial areas such as Bombay and Calcutta due to shortages in power or in imported materials. Shortages also explain why some industries are working below full production capacity.

The overgrowth of the consumer industries shows that industrial development has not gone ahead smoothly. It also means that *Indian industry is relying to an increasing extent on importation.* As we shall see, this situation has had a bad effect on the balance of payments.

It is worth noting that the reliance on imports tends to increase automatically. It provokes increasing demand for external aid and external private investments. Foreign capital, whether public or private, is detrimental to the harmonious development of the debtor country. It tends to increase its hold on the dependent nation, which becomes more and more closely tied to the world capitalist market.

These facts to some extent explain the contradictions of industrial development in India and its limited impact on the country's overall economic growth.

3. A SUMMARY OF INDUSTRIAL DEVELOPMENT PROBLEMS

Industrial development on a fairly large scale has been set in motion and has progressed at a relatively fast rate, although not so fast as that of the socialist countries in the initial stages of industrialization. However, disproportions have increased, causing new difficulties. The modern industrial sector has not gained appreciably in relative importance; it produced only 10·3 per cent of the National Income at the end of the Third Plan against 6·3 per cent in 1948–9.

Employment, Productivity, Profits

However, during the first three Plans, overall industrial production increased by about 140 per cent, but industrial employment did not rise at the same rate as production.[1] We shall take up this point when discussing how the standard of living has changed.

The Industrial progress between 1950 and 1965 was highly favourable to Indian big capital. The official estimates of gross profits (*v.* the revised indices of industrial profits) show that in most industries they rose by 50 per cent to 100 per cent on average between 1951 and 1960. The rise has been even greater in some branches of industry and for certain firms, and lower in others (such as the cotton and jute industries). The rise continued during the Third Plan, roughly proportionate to the amount of capital invested; the increase has even been exceptionally high in certain branches (electrical apparatus and equipment, mineral oils, jute, etc.). The index of industrial profits (before tax) reached 151 (1960–1 = 100) in 1964–5 for private companies and 128 for public companies.

The true rise in profits was probably higher than the official statistics indicate. Industrial production and the prices of manufactured products have risen, but salaries have shown little change although the productivity of labour has progressed rapidly.

The big enterprises, whether belonging to Indian monopoly capital or to foreign capital, have reaped the largest benefits from the expansion of profits.

Indian Capital and Foreign Capital (31)

Foreign capital did not seem to lose much ground to Indian capital. This was due to the amount of direct foreign investments[2] in certain branches of industry (mainly in petroleum) and to the 'collaboration' of foreign financial capital in big enterprises (mainly by British and American capital, but also by the Japanese, the West Germans and the Swiss).

[1] Between 1950 and 1959, employment of workers in the factories coming under the Factory Act rose by about 30 per cent a year (whereas the urban population increased by 4 per cent a year). The gap between the rise in industrial employment and the rise in industrial production shows how great must have been the increase in the productivity of labour. (30) There was little change in this situation during the Third Plan. In the first two years of the Plan, the number of workers looking for jobs through employment exchanges rose from 1·6 million to 2·5 million, and this figure certainly does not include all of those without work.

[2] The amount of foreign capital invested in India has increased at roughly the same rate as have the assets of Indian joint-stock companies.

We have seen above that foreign investments take second place in financing private industrial investments, but their economic importance is greater than the figures indicate.

In general, the period was characterized by a closer collaboration between domestic and foreign capital,[1] which is visible in financial, credit and technical agreements and in the growing number of agreements made by Indian capitalists to buy spare parts, equipment, semi-products, etc. from big foreign firms.

The closer links between Indian monopoly capital and foreign capital entailed increased financial dependence of Indian firms on foreign capital, and obligations to limit the sale of some Indian industrial products on some foreign markets. There were also more 'concessions' or 'guarantees' accorded to foreign capital on taxes and transports.

India's reliance on the big capitalist countries increased in other less obvious ways during the Second and Third Plans. The United States is mainly concerned here, but a long and detailed analysis would be necessary in order to detect all the different ways in which India has contracted obligations. They may eventually impede the development of the India economy or change its course.

It is also important to note that the increasing use of foreign public funds forced India to obtain unwritten agreements from the foreign powers on the main lines of her economic policy and development programme.

In reality, the use of the above-mentioned credits, D.L.F. and I.B.R.D. credits, and counterpart funds resulting from the sale of surplus goods, etc. mainly assists the enterprises dominated by or in contact with foreign capital. These were therefore able to expand faster than the others. This situation prompts new Indian enterprises to seek foreign aid in order to gain greater facilities. Thus a powerful machinery has been set up, mainly through American pressure, to persuade Indian capital to go into association with foreign capital—and association all too often means subordination.

If a serious economic crisis were to arise, the results of the situation which we have just described would be evident. When there is a financial crisis, the interference of foreign financiers in the debtor country's affairs reaches a climax. The South American countries have often come to realize this only too well. The I.M.F. and I.B.R.D. missions are largely responsible for the interference. Economic development is slowed

[1] This collaboration has an importance that goes beyond pure economics, for it occurs even where it is not technically and economically necessary.

down on the pretext of 'repaying credits' and of 'strengthening' the debtor country's currency.

Big Capital and the Smaller Enterprises

The particularly rapid expansion of large companies and of the large financial groups confirms that big capital has been the main beneficiary of development since Independence. Tata and Birla retain the leading positions they held before Independence. Both are still more powerful than in 1947, and Birla's power grew to equal Tata's as early as 1958. It controls 300 companies whose assets total nearly 3 thousand million Rs. and has partial control over many other companies.[1] The big financial groups use their banks to control other companies. In 1963, 188 directors of the 20 biggest banks (holding 75 per cent of banking capital) possessed 1,640 directorships.[2] This high degree of concentration obviously helps to maintain restrictive practices in production—which have a very bad effect on economic development—and to raise prices.[3]

The importance of the big banks has increased since Independence:

[1] Between 1951 and 1958, the capital stock controlled by the four big financial groups (Tata, Birla, Burn, Dalmia-Jain) rose from 21·85 per cent to 26 per cent of the total capital of non-governmental companies (according to H. D. Malaviya in an article entitled 'Concentrated Economic Power on the Rampage' in *Socialist Congressman*, April 5, 1965, p. 8).

[2] Krishna Menon pointed out this fact to the All India Congress Committee at Jaipur on November 4, 1963.

[3] Calculations made by E. Löbel and P. Das of the utilization of productive capacities in 1953 show a remarkably low level. The calculations are based on the possibility of a maximum use of existing equipment, generally corresponding to work by three eight-hour shifts. Even when loss of output through equipment fatigue is taken into account, the authors find that productive capacities were generally used at 54 per cent of the potential in big industries producing consumer goods and 22 per cent in those making means of production. In some cases, unused productive capacities coexist with fairly large-scale importation.

Many factors are at the root of this situation, but the main ones are without doubt the monopolistic practices of the big financial groups which control the most powerful enterprises and want to maximize their profits by limiting production and maintaining prices which are well above cost-price. It is true that if all the existing installations were working at full capacity there would be some difficulty in obtaining raw materials, power and skilled workers, but this should not stop the productive capacities from rising to a considerable degree (*v.* E. Löbel and P. Das, *Productive Capacity of Large-Scale industry in India*, Indian Statistical Institute, Calcutta, 1955).

At the end of the Second Plan and during the Third, there was still a great deal of under-utilization of existing capacities. This resulted from the combination of monopolistic (or oligopolistic) practices with a lack of some raw materials, spare parts, etc., due to inefficient planning and import restrictions resulting from lack of foreign currency.

their businesses have expanded and they have absorbed smaller banks. In 1960, the private banking system was dominated by the Big Five; that is to say, in decreasing order of importance according to total deposits, the Central Bank, the Punjab National Bank, the Bank of India, the United Commercial Bank and the Bank of Baroda. In that year, the Big Five held about half of the total deposits (13·2 thousand million Rs.) of all the Scheduled Banks, excluding the State Bank.

Under the terms of the law passed on May 8, 1955, the Imperial Bank was transformed into the State Bank of India in the form of a joint-stock company. Some of the shares are held by individual subscribers,[1] but the Reserve Bank of India and the Central Government appoint the President, the Vice-President and eight members of the Board of Directors, the other six being elected by the shareholders (the Reserve Bank excluded).

In theory, the Imperial Bank was nationalized to create a better means of distributing bank credit and, in particular, rural credit. In fact, its main consequence has been to oust British capital from its influential position in the banking world. Indian big capital's position has not been affected by nationalization, for it holds a number of seats on the boards of the nationalized banks.

Indian finance capital also increased its strength by expanding in the insurance field, but the management methods of insurance companies have given rise to many abuses. Administrative costs have been wildly exaggerated and there have even been cases of embezzlement.

These abuses endangered the future of insurance activities. The government therefore took the emergency measures contained in the Act of January 19, 1956. The State thereby took over the management of all life insurance businesses. This Act and the law of March 21, 1956 were the first steps towards nationalization of life insurance.

The second stage came with the law of June 18, 1956, creating the Life Insurance Corporation, which went into action on the first of July. This State organization now has a monopoly of the Life Insurance business (with a few relatively unimportant exceptions). By this law, former insurance companies received what can be considered as generous compensation.

One of the reasons which moved the government to nationalize life insurance was certainly the manner in which some companies were run:

[1] The former shareholders were given compensation in Central Government bonds, in State Bank shares, or (in exceptional cases) in money.

this was the reason given officially by the Finance Minister at the time, C. D. Deshmuk. In his broadcast speech on January 19, 1956, he pointed out that in the previous ten years, 25 companies had been forced to go into liquidation and 25 others had conducted their affairs so badly that their liabilities had to be transferred to other companies with consequent losses for those insured.

Another reason was the desire to liquidate financial resources through life insurance. Suspicion would only decrease the possibility of using such a method. This reason was also plainly stated at the time.

The third reason why the government acted was that it wished to distribute the liquidated financial resources in certain priority fields. Unfortunately, the latter were not necessarily of essential importance to development; they were often the spheres in which the most powerful financial groups wished to invest. Such groups were obviously against 'wastage' of resources by their weaker rivals, who were connected with a small or medium-sized insurance company. 'Priority interests' were looked after by representatives of big capital, who were admitted to the board of the Life Insurance Corporation. At the time of nationalization, the Finance Minister went as far as to say that it was not the government's intention to direct the available funds towards the public sector to any greater extent than before. In fact, he was willing to make an effort to ensure that at least the same sums as those at present put at the disposal of the public sector continued to be put at its disposal. (The Finance Minister's speech was broadcast on January 19, 1956.)

This declaration, which was made at a time when an economic plan (theoretically giving priority to the public sector) was due to come into operation, seems to indicate the government's desire to give some kind of priority to the private sector. It is extremely difficult in any case to hold that the nationalization of life insurance was a step in the direction of a 'socialist State'. The brief hint at this sort of an interpretation which is to be found towards the end of the Finance Minister's statement appears to be no more than a figure of speech.

The nationalization of the Reserve Bank of India in 1948, and of the Imperial Bank, and some insurance companies, has strengthened rather than diminished Indian big capital's influence. It has eliminated foreign capital's control of the Imperial Bank of India and some insurance companies, and has given the big Indian companies a chance to take part in the making of decisions within the nationalized sector. The big financial groups and big capital have thus a more direct influence,

through boards of directors and government Commissions, on resources formerly controlled by foreign capital or by small or medium capitalists (as in the case of life insurance companies).

This is not to say that all small enterprises have stagnated since Independence; some have also developed rapidly. That is so in agriculture as well as in commerce and in industry. In this sense, recent development has certainly enlarged the social basis of Indian capitalism. This is one of the social and economic reasons why the Congress Party has remained united, despite a number of minor crises, and why a second big party upholding the big bourgeoisie's interests has not yet gained much strength.

One particularly interesting aspect of recent progress is that some commercial capital is beginning to flow towards industry. This is one of the most difficult processes to encourage in the present conditions of world economy.

Thus it can be said that, during the first three Plans, India has made a start—even if not a big one—on the process of industrial development.

Some of the major factors which have caused this transformation in India have already been mentioned in Chapter III. New industries are able to produce some basic products—steel for example, at cost-prices lower than world prices. The potential size of the domestic market is also a highly favourable factor.

Another positive factor is the existence of a large, powerful and cultured bourgeoisie which is not of recent formation. A large section of the bourgeoisie was engaged in industrial activities long before Independence. Without such conditions, a country could not hope to begin the process of industrialization in the way India has done. Even in India, the limits are very tight (we shall take up this point later) and the rate of development by no means rapid.

The Five-Year Plans and Industrial Development

The Plans have been of fundamental importance in starting India's industrial development. The application of the Plans and the increase in public expenditure designed to create a 'development infrastructure' have given industry new production and sales opportunities. The greater protection given to 'national' products has had the same effect.[1] Besides,

[1] One must remember that a product is considered to be national if it is made by an enterprise situated on Indian territory, even if the capital, equipment, working stock and management are foreign.

the knowledge that public expenditure would be increased methodically and regularly, and that demand would follow suit, has induced Indian capitalists to make industrial investments which otherwise they would not have considered.

Furthermore, potential bottlenecks and supply problems have been avoided, since industries which private capital did not want to create have been set up in the public sector.

Planning policy has also been to some extent successful in concentrating some of the capital formation and directing it towards priority objectives. However, as we have seen, the efficacy of these operations must not be overestimated. In point of fact, most of the new economic surplus has been drained off and used by private capital. This seems to limit the possibilities of future development in the public sector.

The Five-Year Plans (and India's skilful manoeuvres in the field of international politics) have enabled the Indian economy to obtain an increasing amount of foreign aid and thus swell the volume of productive investments.

Finally, the economic policy of the first three Plans has started an industrial expansion by making some essential social changes—for instance, by means of the agrarian measures, which have hastened the development of rural capitalism, and by the multiplication of State-controlled financial institutions. Although the latter have given priority aid to the enterprises owned by big capital, they have certainly been of some use to the smaller enterprises. This policy has served the interests of monopoly capital, but not of monopoly capital alone. It is another proof of the Indian bourgeoisie's unity. For example, the development of credit co-operatives, the creation of the State Bank and of various public financial institutions, the development of State trading, etc., have simultaneously helped to develop agricultural capitalism and small industrial capitalism.

The bourgeoisie's unity is not absolute, but until now there have been no major conflicts. There is friction between the big bourgeoisie and other sections of the bourgeoisie, and between the industrial bourgeoisie and the landowners or the representatives of traditional capitalism (moneylenders, merchants) who are involved in semi-feudal systems. The leaders of the bourgeoisie and of the Indian Government have been able to avoid clashes among these groups.

The Limits of This Type of Industrial Development

On the political side, this type of development is limited by the fact that it cannot change social structures rapidly and thoroughly, for the bourgeoisie is obviously unwilling to run the risk of creating tensions among the different classes of owner. Therefore the former semi-feudal and pre-industrial relations still exist and prevent a rapid capitalist industrial development.

On the economic front, this type of development does not enable the country to mobilize the immense unemployed productive forces for the benefit of industrialization, or even to retain the major part of the current economic surplus for the purpose of further industrial development. Much of the surplus is still wasted in the traditional fields of commerce, moneylending and speculation. The greater activity of the capital market has even caused an increase in speculation, as can be seen from the fluctuations of industrial securities on the Exchange. Some industrial shares have varied by as much as 20 or 30 per cent in the course of a year.[1]

Urban property speculation (evident from the considerable rise in price of land in most cities), and large-scale construction of luxury flats during a period when the housing situation of the middle and lower classes was deteriorating, are two other spheres of investment which run counter to industrial priorities. If the total of housing investments during the first two Plans is taken to be about 11 thousand million Rs., eight- or nine-tenths of this sum—in all about 1·3 times the amount of industrial investments in the public sector during the Second Plan—have been used for high-class building construction. (32)

In industry itself, the priorities are in fact determined by the dominant interests of big capital and of the financial groups. Consequently, big enterprises have developed more quickly than the smaller ones, despite the fact that the latter require less investment and are less costly in terms of importation of equipment, and that their development could have had a decisive effect on the speed of industrialization.

As for the execution of the Plans, priorities were seldom respected. At the beginning of the Second Plan, for instance, import licences were issued for a large number of items of industrial equipment completely unrelated to the Plan. There were serious consequences: foreign currency reserves dropped rapidly, forcing the government to reduce the

[1] The same situation is to be observed on the forward-trading markets for most raw materials and merchandise.

volume of some equipment imports normally on the priority list; some of the development programmes were held up; productive capacities of little use to economic development, and even super-capacities, appeared; and foreign exchange had to be spent on importing raw materials, semi-products, etc., in order to prop up industries of little economic interest. Disproportions were increased and industrial development lost co-ordination.

It is important to realize that development of non-priority industries (i.e. industries not of importance to India's economic future) was by no means an accident due to mismanagement or a poor control of investments and imports. It was due to private capital's strength and desire for quick, easy profits. It was also related to the immense rural market's lack of progress and to the increase of consumption expenditure by some urban classes enjoying a fairly good social and economic situation: that is to say, the industrial and commercial bourgeoisie, high-ranking civil servants, industrial management, and the upper strata of the petty bourgeoisie, who benefit from some of the income earned by the preceding groups.

The incomes of these classes are also increased by the sharing-out of dividends. In fact, a new class of persons with income from capital is appearing; it consists of those whose incomes are swollen by direct industrial and commercial profits and by dividends from industrial, commercial or financial shares. There has been a fairly large increase in the number of those owning shares who also work for their living and draw salaries. This is a sign that the middle classes are earning a greater share of capitalist income, and this may strengthen the links between the middle classes and big capital. Income from dividends may eventually replace former income from property. This process may be hastened if investment societies are formed on a large scale.

Private non-priority industrial investments had a negative effect upon India's industrial progress, but this has been partly offset by large State investment and by the private industrial investments useful to development which were encouraged by State expenditure.

Public investments certainly caused an industrial development favourable to future growth, but the present rate of progress is not strong enough to counterbalance the many negative factors that influence private investments. The main negative factors may be summed up as the extremely slow progress of the rural market as well as of agricultural production (which slows down industrial expansion); the development

of monopoly capital and its closer collaboration with foreign capital; and the improved economic means of the more-or-less privileged classes.

When the compensatory effect of public spending (largely financed by foreign aid) is no longer as great as it has been in recent years, or when its effect on industrialization is reduced because of disagreement within the governing classes, the negative factors will have a much greater influence on industrial development. The increasing need for foreign aid suggests that India may not have long to wait before this happens.

NOTES TO CHAPTER IX

(1) Quoted from *F.F.Y.P.*, p. 422.

(2) Cf. *Industrial Policy Resolution*, G. of I., New Delhi, 1956.

(3) Initially, the number of industries covered by this law was 37. In 1960 this number rose to 162.

(4) Cf. *Economic Survey 1961–2 and 1965–6*, table 2.1. The report by S. G. Tiwari to the Second Indian Conference on National Income states that in 1955–6 the total gross capital formation from budget resources (Central Government, States, and local authorities) had risen to 4·9 thousand million Rs. To this amount must be added 350 million Rs. of gross capital formation from public enterprises. According to this report, the total gross capital formation in the whole public sector rose from 2·7 to 8·5 thousand million Rs. between 1952–3, and 1957–8, According to *N.I.S.-F.G.C.F.*, the figures for these two years would be: 2·4 and 7·8 thousand million Rs.; and the total for 1959–60: 9·8 thousand million Rs. (p. 22).

(5) Cf. E. Löbel and P. Das's study *Productive Capacity of Large Scale Industries in India*, I.S.I., Calcutta, August 1956.

(6) Cf. *T.F.Y.P.*, p. 59. The same source indicates that public fixed capital investments in industrial programmes had reached 7·7 thousand million Rs., as against 5·6 thousand million Rs. expected (p. 455), and that public investments in power reached 7·05 thousand million Rs. (p. 43).

(7) Cf. *T.F.Y.P.*, p. 59. To this sum the Plan added 1·5 thousand million Rs. for small industries, and 10 thousand million Rs. for electricity. These figures are also underestimations.

(8) *Ibid.*, p. 459.

(9) *M.T.A.*, p. 119.

(10) *Ibid.*, p. 120.

(11) *T.F.Y.P.*, p. 455. The same source gives other figures; such as 9·5 thousand million Rs. (this includes power and small industries) against an expected total, for the same sectors, of 7·15 thousand million Rs. (p. 105.)

(12) *Ibid.*, p. 59.

(13) *Ibid.*, p. 459.

(14) *M.T.A.*, p. 120.

(15) A summary of the Commission's activities up to 1958 is given by H. Venkatasubbiah, in *Indian Economy since Independence*, Bombay, 1956, pp. 186 *et seq.*

(16) Cf. *E.W.*, April 23 1960, p. 645. Cf. also *E.W.*'s of February 27, July 30, and November 5, 1960.

(17) Advances from 'managing agencies' etc. This does not appear in subsequent estimates.

(18) Cf. *F.F.Y.P.*, p. 79.

(19) He did this particularly in his presidential report to the National Institute of Sciences of India, at the Institute's Madras meeting in 1958.

The reasoning presented by Professor Mahalanobis can be expressed as follows:

India needs an extra 700,000 tons, approximately, of foodgrains in the next few years. There are several methods of reaching this figure.

First, by buying abroad. The cost of 700,000 tons being about 300 million Rs., the total cost over five years would be 4·5 thousand million Rs.

Second, by importing a sufficient quantity of fertilizer to obtain an increase sufficient to cover the above deficiency. The total fertilizer imports per year would have to increase to about 90 million Rs., which would mean an outlay of 1·35 thousand million Rs. in five years, a lesser expense than in the case above.

Third, a still better solution would be to install a new fertilizer factory every year, which would mean a fixed investment of 250 million Rs., of which only 100 million Rs. need be imported. In five years, the total cost would be 1,250 million Rs., of which only 500 million Rs. would be imported.

Furthermore, all this outlay would ensure the production in the following years of the necessary fertilizer to obtain 3,500,000 tons of foodgrains without any imports, while in the two previous cases the importing would continue indefinitely.

Fourth, it is equally possible to build a plant for the production of fertilizer factories. This would require an investment of 100 to 150

million Rs., of which 80 to 100 million alone would be imported; and this would permit the construction, over a great number of years, of fertilizer factories without any importation being necessary.

As Professor Mahalanobis emphasizes, in each succeeding solution decisions must be made earlier and earlier, owing to the long construction and production times. The fourth solution requires the decision to be taken 8 or 10 years before the fertilizers may be used.

He concludes that a wise use of 100 million Rs. at one time results in the saving, if the decision is taken in time, of a sum of foreign currency equivalent to 4,500 million Rs. in five years. (Cf. 'Science and National Planning', Anniversary Address by Professor P. C. Mahalanobis to the National Institute of Sciences of India, January 5, 1958, pp. 15–16).

This is a remarkable demonstration of the advantages of planned development, and of allowing priority to basic industries.

(20) This table is made up from the documents of the Planning Commission (particularly *D.O.T.F.Y.P.*, pp. 38 *et seq.*, and *T.F.Y.P.*, pp. 78 *et seq.*), and from the latest current statistics available (principally *M.A.S.*).

(21) At the end of the Third Plan, it was forecast that the national production of capital goods would attain 6·7 thousand million Rs. (but this total will not be reached, at least at 1960 prices); the demand for this category of goods ought to reach 10·5 thousand million Rs. and the imports 5·5 thousand million Rs. (cf. *N.P.D.I.*, p. 14). It is in order to reduce this imbalance that the Draft of the Fourth Plan (1966–71) has provided for the following industrial investment structure (in the main branches of industry, in thousand millions of Rs.):

Metals, mining, petroleum, machinery and engineering industries	33·5
Intermediate products, fertilizers and pesticides	12·5
Consumer goods and others	10·0
Total	56·0

(Cf. *M.F.F.Y.P.*, p. 53.)

The achievement of this Plan raises numerous problems, and moreover it would leave a deficit of 5·3 thousand million Rs. of capital goods in 1970–1.

(22) In this respect, India is far behind China. At the present time, China is capable of establishing projects on her own: of building steelworks of 1 million tons capacity, coal mines of 1·5 million tons capacity, large dams producing a thousand million kwh. per year—all equipped with machinery produced in China itself. It must be added that the close relations between India and the West are largely responsible for this defect. Western interests exert a strong pressure to minimize India's progress in this field, which would allow her economic and technical independence to move quickly. This pressure even applies to Indian firms of consultants, who are more often than not refused participation in the planning of large industrial projects.

(23) The majority of small companies are forced to resort to borrowing, and to obtain credit at very high interest rates (cf. Society for Social and Economic Studies, *Capital for Medium and Small-scale Industries*, Asia Publishing House, 1959).

(24) Many small enterprises depend upon big firms for their orders, semi-products, spare parts etc. (cf. Ajit Roy, *Planning in India*, Asia Publishing House, 1965, pp. 401–37).

(25) Cf. *E.W.*, August 15, 1959, p. 1124.

(26) Cf. *D.O.T.F.Y.F.*, p. 216, and the article by T. P. Subramanian, 'Petroleum in the Third Plan' in *E.W.*, December 17, 1960. This article presents a critical view of the Third Plan's power projects, and foresees a demand of 14·5 million tons of petroleum, in 1966.

(27) Cf. *E.S.*, 1964–5, pp. 18–19.

(28) Cf. *The Economic Times*, March 6, 1961.

(29) Cf. the article by V. C. Shah, 'Price Control in the Indian Economy', *E.W.*, July 17, 1965.

(30) The 30 per cent increase in industrial employment is calculated from the *S.A.* 1957–8, p. 559, and from *M.A.S.*, January 1961, p. 68. The estimated employment of those factories not furnishing figures have not been included from 1957 onwards.

(31) Certain problems mentioned here are treated in Chapter XI.

(32) See on this point the article by Kersi Doodher, 'Capital Formation in the U-Sector', in *E.W.*, October 29, 1960, pp. 1581 *et seq.* In ten years, the price of land in the principal towns increased 20 to 40 times.

X

HOW DEVELOPMENT IS FINANCED

FINANCIAL questions should not be the main difficulty in a programme of economic planning. A country's essential resources for economic development are its manpower and its material wealth. The National Income will rise rapidly if these two resources are suitably combined and directed towards the production of supplementary equipment or increases in production which will cover the import of more equipment. In this way, material accumulation can be steadily on the increase and the future rise of the National Income will be ensured.

It is possible to increase the National Income for the time being by using unemployed manpower or underemployed productive capacities, where they exist. But once these forces are in action, only an increase in the equipment and means of production available—combined with technical progress—will provide a constant rise in the National Income.

Foreign credits or foreign financial aid can be used as a temporary expedient to finance the import of means of production, which the planned expansion will help to pay for later. This can only be a stop-gap.

Economic growth can only be truly accelerated if the rate of national accumulation also increases, and production rises more quickly than consumption. Once again, faster growth can only be ensured by a rational use of the National Income and of existing resources. In a socialist economy, productive activities can be directly controlled by the State, which commands all the means of production, and the financial or monetary decisions can be subordinated to the needs of the country's true resources. In a capitalist economy, on the other hand, the State institutions have to try and direct the use of true resources by their financial and monetary policy. If market production and private ownership of the means of production exist on a large scale, monetary decisions are of the greatest importance. They can influence the manner in which private owners use their means of production. But they cannot influence those who rarely produce for the market, and that type of producer is common in India. Nevertheless, decisions on money, credit

and financing are fairly important, even in a country like India, when they are liable to influence the way in which the current and potential economic surplus is used.[1] The amount of the surplus earned by private owners, and used for what is often sumptuary spending on personal consumption, can be made to vary; the surplus can be used for productive investment, or transferred to the State by means of taxation and used for development purposes. The State can thus use the monetary counterpart of the surplus to mobilize true resources or to ensure that they are used in a way conducive to faster economic growth.

In the present conditions, government action in the financial sphere has an important effect on the use of resources, even though direct action would be the only infallible method. Economic growth can be temporarily accelerated, slowed down, or directed into certain channels by use of financial measures.

There is another reason for examining the government's financial policy: it affects not only the use of the current economic surplus, but also the way the National Income is distributed, and even the size of the current surplus. To show what effect financial policy has on incomes, one might take the recent example of indirect taxation, inflationary expansion, and the government's refusal to make a large increase in taxation on income from property and income from capital. The result has been to multiply social inequalities. Financial policy, despite its technical aspect, can, on close examination, reveal important social facts.

Finally, financial policy can show whether the measures taken are going to improve the possibilities of *rapid, self-sustained economic development*, or are merely temporary palliatives.

These are the major problems one must bear in mind when studying financial and monetary policy in relation to economic development.

It must also be remembered that in an economy such as India's, financial mechanisms do not have much influence over a part of capital formation: over rural accumulation, for example, originating from land improvement (canals, drainage, reforestation etc.). When this sort of work is carried out by the peasants on the land they cultivate themselves,

[1] These terms are used in much the same sense as Paul Baran gives to them in *The Political Economy of Growth* (London and New York, Monthly Review Press, 1962). My own definitions can be found in Chapter 6 of *Planification et Croissance Accélérée*, ed. by F. Maspéro, Paris, 1965 (2nd edition).

it demands no monetary transaction but, even so, contributes to the accumulation and to the increase of the country's productive forces. Unfortunately, statistics tell us little about the size of such accumulation. (1)

1. CAPITAL FORMATION AND THE COST OF DEVELOPMENT

Net capital formation in India just before the start of the First Plan was officially estimated at 5·2 thousand million Rs. per year (the figure given, in fact, for 1950–1). (2) This sum of net capital investment equalled 5·5 per cent of the National Income for that year.

Net capital formation increased steadily during the First Plan. In 1955–6, it had reached about 8·9 thousand million Rs., which was 8·9 per cent of the National Income. The total of net fixed capital investment during the First Plan is estimated to have been around 34·4 thousand million Rs., 15 thousand million Rs. being the sum of public investments and 18·4 thousand million Rs. the sum of private investments. (3)

As we have seen above, both public and private investments have increased in recent years. But at the end of the Second Plan, the total of net current investments out of the National Income was only 10 or 11 per cent of the National Income itself.

Private Investment

Before discussing public investment, it will be useful to take up the question of private investment, which we have already referred to while discussing investment financing in the private modern industries. (4)

Private investments are mainly financed from individual savings and from self-financing by the enterprises concerned. (5) As we mentioned above, a large but uncalculated part of rural investment is made without accompanying monetary transactions. We shall give some indications about 1954–5 as an example. In 1954–5, net capital formation was estimated at 8·43 thousand million Rs. (for the source, see Note 5). Internal savings accounted for 8 thousand million Rs., which came from the following sources: 6·58 thousand million Rs. from household and personal-enterprise savings; 250 million Rs. from self-financing by companies; 1·17 thousand million Rs. from 'government savings' (the budget surplus). Thus, in 1954–5, about seven-eighths of the national accumulation was drawn from private savings. (6)

According to the same source, the 6·58 thousand million Rs. saved by householders and personal enterprises (including peasant holdings) were used in the following manner: 2·74 thousand million Rs. were invested in the holdings and enterprises belonging to those who saved the money; 1·76 thousand million Rs. were invested in State bonds; 1·32 thousand million Rs. went to increase liquid assets (120 million Rs. in gold and the rest in banknotes or in deposits, i.e. in loans to the banking system); 920 million Rs. were used for privately owned shares, insurance premiums, etc. The total is 160 million Rs. greater than the sum of individual savings because of the increase in debts contracted by households and personal enterprises.

These figures are only approximations, but they reveal some interesting facts. First, only about 40 per cent of private savings increase the savers' real assets, whereas about 60 per cent is lent to the State or to financial institutions. This part of capital formation is mainly provided by the bourgeoisie and the upper middle classes.

Secondly, most of the personal savings which are invested outside the household or the enterprise from which they come are loaned to the State, the banks and the financial institutions, which in turn invest the major part of their new resources in State bonds. This shows that State capitalism in India already has an important rôle to play.

Thirdly, company self-financing, although quite important in itself, is of very small importance to the total national accumulation, of which it was only 3 per cent in 1954–5. Big capital obviously needs to depend on the State to increase capital formation.

The Cost of Development

In Indian financial terminology, 'public expenditure on development' is used to mean the total of public investments plus some new current expenses arising from the Plan, which are considered as helping to provide an increase of the National Income.[1]

We have seen that public expenditure on development (as defined above) totalled 23·8 thousand million Rs. during the First Plan, 46

[1] 'Current development expenses' are therefore only part of the current expenses which contribute to economic and social development. In fact, this term covers spending which is to be increased under the Plan and excludes current spending which is the result of previous measures, although the latter may also contribute to economic growth (e.g. expenditure on education, public health, etc.).

thousand million Rs. during the Second Plan, and should be about 86 thousand million Rs. during the Third Plan.

To show how public financial costs arising from the development policy have increased, we give the following table. It sets out the total of all costs met by the Central and Provincial Governments, whether current expenses or investments, and whether the expenses were provided for in the Plans or not.

TOTAL EXPENDITURE BY THE CENTRAL AND PROVINCIAL GOVERNMENTS (IN THOUSAND MILLION RS.) (7)

	1951–2	1955–6	1961–2	1965–6 (budget estimates)
Total expenditure	9·98	14·70	28·08	53·39
Development expenditure	4·30	8·84	18·72	33·97
Other expenses	5·18	5·86	9·37	19·42
Development expenditure as % of the total	48·1	60·1	66·8	62·7

It can been seen that during this period development expenditure rose by more than six times the initial figure, and that the total of government expenditure was in the end roughly equivalent to one-fourth of the National Income. These are important changes.

INTERNAL FINANCING OF PUBLIC EXPENDITURE

The table opposite shows to what extent it has been possible to finance public expenditure on development by means other than borrowing.

The amount of development expenditure required by the Plans and financed from sources other than loans fell from 38 per cent during the First Plan to 25 per cent during the Second, as can be seen from the above table. This is a better result than the initial estimates suggested (20 per cent).

The expected proportion was obviously too low. As the government did not wish to increase the budget surplus to a sufficient extent, both total expenditure and methods of financing had to be altered during the Second Plan. It should be said, however, that the initial estimates of the normal budget surplus were over-optimistic. The additional receipts

from taxes, prices and railway tariffs had to be increased in order to finance part of the public expenditure on development.

The Third Plan hoped to cover more than one-third of development costs by means other than borrowing. This also proved over-optimistic. It was completely thrown out by the increase in non-development expenses. Instead of a surplus there was a budget deficit despite increased taxation (which gave additional receipts of 9·3 thousand million Rs. in the first three years of the Third Plan).[1]

RESOURCES OTHER THAN LOANS AVAILABLE FOR FINANCING PUBLIC EXPENDITURE ON DEVELOPMENT (IN THOUSAND MILLION RS.) (8)

	1st Plan (Results)	2nd Plan (Initial estimates)	2nd Plan (Estimated results)	3rd Plan (Forecasts)	3rd Plan (Latest estimates)
1. Balance from revenues on the basis of existing taxation (9)	—	3·5	–0·5	5·5	–4·7
2. Contribution from railways on existing basis (9)	7·5	1·5	1·5 (11)	1·0	0·8
3. Surpluses from public enterprises on existing basis	—	—	—	4·5	3·9
4. Additional receipts due to changes in taxation, prices, tariffs, etc. (10)	—	4·5	10·5	17·1	28·8
5. *Total* of the above receipts	7·5	9·5	11·5	28·1	28·8
6. *Total development expenditure*	19·6	48·0	46·0	72·5	86·3
7. Line 5 as per cent of 6	38	20	25	36	33

The gap between total outlay and current revenues increased rapidly, reaching nearly 17,772 million Rs. in 1965–6. The surplus from State

[1] Increased fiscal measures should give an extra 25·5 thousand million Rs. over the whole of the Third Plan, instead of the 17·1 thousand million Rs. expected. (*v. E.S.*, 1964–5, p. 24.) Many different methods of taxation were used, but consumers and small income-earners suffered most heavily, especially as the measures were designed to favour private investors, both Indian and foreign. (*v. E.S.*, 1963–4, pp. 1–3 and 22–4, and *E.S.*, 1964–5, pp. 7–8 and 23–5.)

enterprises other than the railways increased very slowly: from 1961–2 to 1963–4 it rose by only some 1·4 thousand million Rs.

Finally, less than 15 per cent of the development expenditure required by the Plan was covered by receipts other than loans during the first three years of the Third Plan. (12)

Indirect taxes have generally risen much more quickly than taxes on income and property, which have been unfavourable to the majority of consumers. They are forced to bear the brunt of increased indirect taxation as well as the consequences of the inflationary rise in prices.

Domestic Loans

Since current receipts cover a steadily decreasing amount of expenditure, loans have to be made on a larger scale. The table below shows how domestic borrowing has increased during the first three Plans.

RESOURCES OBTAINED FROM DOMESTIC LOANS (IN THOUSAND MILLION RS.) (13)

	1st Plan (Results)	2nd Plan (Initial estimates)	2nd Plan (Estimated results)	3rd Plan (Forecasts)	3rd Plan (latest estimates)
1. Borrowing from the public	2·05	7·0	7·8	8·0	9·2
2. Small savings	3·05	5·0	4·0	6·0	5·8
3. Provident funds, betterment levies, etc.	0·9	2·5	2·3	5·4	4·5
4. Deficit financing	2·4	12·0	9·5	5·5	11·5
Total	10·2	26·5	23·6	24·9	31·0
Total as % of total public development expenditure	52	55	56	34	34·

The resources acquired by domestic borrowing (including loans from the Reserve Bank) were about 2·3 times greater during the Second Plan than during the First. Throughout the period, domestic borrowing accounted for more than 50 per cent of public development expenditure. It therefore seemed unrealistic to predict a fall to 34 per cent for the Third Plan (the expected increase in the budgetary surplus being again to blame). During the first three years of the Third Plan, resources from

domestic borrowing were still more than 50 per cent of total public expenditure on development (14) despite new taxation (which, it is true, was partly necessary because of higher non-development costs).

Moreover, the major share of what is termed 'borrowing from the public' is in fact provided by financial institutions and therefore corresponds partly to credit expansion and not entirely to real savings.

According to a Reserve Bank of India report, in 1958 1·62 thousand million Rs. of a total issue of 2·38 thousand million Rs. coming under the 'public' heading was bought up by commercial banks and co-operatives; 320 million Rs. were absorbed by insurance companies (including the National Life Insurance Co.); finally, 240 million Rs. alone were covered by provident funds, and 300 million Rs. by various other sources. (15) Thus, nearly 90 per cent of borrowing from the 'public' was in fact covered by financial institutions.[1]

Part of the loans subscribed by the 'public' corresponds to the banking system's use of 'counterpart funds' provided by imports made under agreements between the Indian Government and the United States (mainly cereal imports under Public Law 480).

The increase in the State debt meant higher interest costs; between 1961–2 and 1964–5, they rose from 1·3 to 2·1 thousand million Rs. (for both Central and Provincial Governments).

Two other points are of interest. Not only is the government's debt increasing, but the fraction repayable on short term is growing particularly fast. Secondly, the increase in the internal debt is mainly based on credit and monetary expansion, and inflationary consequences began to show their effects during the Second Plan. This is the question we shall now examine.

3. MONEY SUPPLY AND PRICES

During the First Plan, the money supply available increased fairly slowly—by about 14·5 per cent—whereas the real National Income is estimated to have risen by more than 18 per cent. The situation changed completely during the Second Plan; the money supply rose by more than

[1] This does not exclude the possibility that a part of the sums invested by financial institutions in State loans does in fact correspond to personal savings placed with the institution by the public itself. Other personal savings (post office accounts, savings stamps, etc.) also increase the State's financial resources. In 1958–9, the total of such savings (mainly belonging to the middle classes) added about 1 thousand million Rs. to the budget.

33 per cent while the real National Income increased by only 21 per cent. Prices therefore rose rapidly. The general index of wholesale prices rose by 35 per cent between 1955–6 and 1960–1.

MONEY SUPPLY WITH THE PUBLIC
(IN THOUSAND MILLION RS.)

	Currency	*Deposits*	*Total*
End of 1950	11·9	6·0	17·9
End of 1955	13·9	6·6	20·5
End of 1961	19·8	8·9	28·7
End of March 1963	23·9	9·3	33·2
End of March 1966	30·5	15·3	45·9
End of March 1967	31·9	17·2	49·1

(Sources: *Economic Surveys*)

The situation grew worse during the Third Plan, since between 1961 and 1966, the money supply with the public increased by about 40 per cent, while the general index of wholesale prices increased by a little over 37 per cent and again by 18 per cent in 1966–7.

This process means that the government has been unable to meet development expenses either by raising enough taxes from the richer sections of the population or by making high enough profits from enterprises in the public sector. The result is that much of the cost of development has been met by the poorer classes either through indirect taxation or through the rise in prices. Prices have gone up because monetary expansion has been much larger than was justified by the rise in the real National Income, and because the structure of supply has not been attuned to demand. The worst dislocations are due to the lack of foodstuffs.

There was a particularly serious lack of foodgrains in 1964 and again in 1965, 1966 and 1967. There have been strong reactions and violent popular protests. Rationing had to be re-introduced in some States and regions. Informal rationing was brought into force in November 1964 in Kerala and official rationing at the beginning of 1965 in Calcutta. A chain of 'fair price' shops was created to stabilize prices: at the end of 1964, 100,000 were in business. But results have been disappointing, and the shortages encourage the worst sort of speculation.

In 1964, restrictions were imposed on the short-term markets in an attempt to control the most obvious price-speculation. The State Governments passed measures to control illicit stocking. An Essential Commodities Act was also passed to prevent speculation, but none of these measures had any appreciable effect on the rise in prices. The government fixed maximum prices for some products of which it held stocks, but had to raise the maximum which had been set for rice and wheat in January 1965 in order to reduce the gap between government and free market prices. There is still a considerable difference between the two.

Price control and rationing are not limited to foodgrains. In 1964, unofficial sugar rationing was introduced in many towns. Unofficial control of textile prices was replaced in 1964 by statutory measures which covered about half of the textile factories' output in 1965.

At the same time, control of some industrial products was relaxed in order to 'stimulate production'. The increase in official 'procurement prices' of some agricultural produce was also thought necessary in order to ensure that a larger share went to the official trade organizations.[1] This measure had little effect because of speculation. In 1964–5, it was decided that the Agricultural Price Commission should revise the agricultural price structure. Meanwhile, the Food Corporation of India, a government organization, was given larger credits to enable it to buy stocks and sell in the best possible conditions. This, it is hoped, will persuade producers to sell at more 'reasonable' prices and prevent the sale prices from rising above the ceilings fixed by the government. (16) These policies have not been very successful. They came up against the lack of balance between demand and supply (with a very poor crop in 1965–6); their effect is lessened because they are applied on too small a scale; and they suffer from the pressure of powerful private interests which could only be checked by a frontal attack.

At the beginning of 1965, prices of manufactured products had increased by more than 20 per cent over the 1952–3 level, foodstuffs had gone up by 67 per cent, industrial raw materials by 69 per cent. The highest rise—111 per cent—had been for oil-seeds. During the Third Plan, prices of foodstuffs in relation to manufactured goods underwent an important change. In 1962, the index for manufactured goods was still

[1] In 1963–4, these organizations bought about one million tons of rice; the total production of rice for that year was 36·5 million tons. The comparison is interesting.

a few points higher than that of foodstuffs; by April 1963, the situation had been reversed because of the bad harvest. At the beginning of 1957, the index of foodstuffs had shot ahead, being then 50 points higher than the index of manufactured goods.[1]

The year 1963–4 showed particularly large fluctuations; between April and September 1964, foodgrain prices rose by 28·2 per cent (against 14·4 per cent during the same period in 1963). There were still greater increases in the price of agricultural products for technical use.

The unequal price rises favoured the richer producers as well as those growing industrial crops, and harmed the small peasants.

Another point must be mentioned: the increase in the money supply with the public during the Second Plan was much lower than the increase in the government's debt to the banking system. This was made possible by the influence of certain favourable factors which were obviously not going to have a long-term effect. Sure enough, the movement was reversed at the beginning of the Third Plan. Between March 31, 1961 and the end of January 1965, the government's debt to the banking system increased by 9·1 thousand million Rs. while the money supply with the public increased by 11·3 thousand million Rs. This means that the banking system had increased its loans to the private sector by an amount equivalent to the difference between the above figures. The increase was large in 1962–3 and in 1963–4; afterwards, the private debt decreased as stocks were reduced through restrictions on some imports.

Thus, during several years of the Third Plan the credit demands of the private sector and the public authorities were in keen competition and public loans played against private loans, which explains some of the tensions observed during this period.

Our examination of monetary and financial developments could suggest that although real resources do exist—the unemployed and underemployed working forces, unused productive capacities, the wasted economic surplus, etc.—there may be financial obstacles preventing a more rapid economic growth.

Yet these 'financial obstacles' do not really exist. They are an expression of the social hindrances to development, such as the refusal of the privileged classes to use their real resources in the best interests of rapid economic development. They cannot be made to comply with development needs and to respect price policies because of their political strength.

[1] Between 1952–3 and March 1967, the foodstuffs index rose by 117·6 per cent whereas the manufactured goods index rose by 67·5 per cent.

That is what really lies behind the apparent financial problems, both foreign and domestic, although foreign financial problems are determined by some other factor which we shall study below.

4. EXTERNAL FINANCIAL ASSISTANCE

The First Plan, which did not provide for a large-scale development effort, is characterized by limited recourse to external financial assistance. Foreign aid totalled only 1·88 thousand million Rs. compared with the 19·6 thousand million Rs. of public expenditure on development, that is to say less than 10 per cent of the latter sum. The aid was given by the U.S.A. and the International Bank for Reconstruction and Development during the First Plan. The U.S.A. furnished about 71 per cent of the aid, the I.B.R.D. about 15 per cent, and the residue came from agreements under the Colombo Plan.

The situation was very different during the Second Plan. Large-scale importation was planned for transport and industry. As we shall see when we examine the problems of foreign trade, this importation could only be financed by means of external assistance. The result is that of the 48 thousand million Rs. to be spent by the State on development, foreign financial assistance was to provide 8 thousand million Rs. Even in 1955, this was considered to be a bare minimum, and the actual figure was higher. The table on the following page shows the amount of foreign loans and credits paid to India during the First Plan, the Second Plan, and the Third Plan.

This table gives rise to the following observations:

First, the sum of external assistance used during the Second Plan is about seven times the amount used during the First Plan, and about 10 per cent higher than the provisional figures even though some of the Plan's material objectives were not attained. If the American aid under P.L. 480 and P.L. 665 is included, external financial assistance is 80 per cent higher than foreseen by the Second Plan.

Secondly, during the Third Plan, external financial assistance utilization was 130 per cent higher than the Second Plan's total (excluding additional aid under P.L. 665) and 105 per cent higher if the P.L.'s are included in the Second Plan's total.

Up to now India has always managed to obtain the external assistance she needed. Nevertheless, the greater weight of external debt will cause growing difficulties over repayment of the debt and over financing of

EXTERNAL ASSISTANCE—AUTHORIZATIONS AND UTILIZATIONS (Summary)

	Authorizations				Utilizations				Balance
	Up to end of 1st Plan	During 2nd Plan	During 3rd Plan[1]	Total (1 to 3)	Up to end of 1st Plan	During 2nd Plan	During 3rd Plan[2]	Total (5 to 7)	available for use in Fourth Plan
	1	2	3	4	5	6	7	8	9
A. Loans and credits repayable in foreign currency	210·83	1066·34	2301·74	3578·73	124·13	613·13	1763·56	2798·54	1080·19
B. Loans and credits repayable in Indian Rupees	14·63	230·42	49·55	294·35	2·29	115·92	156·39	275·50	18·83
C. Grants (excluding those under U.S. Public Laws)	137·96	125·12	137·87	401·30	70·18	160·29	107·15	337·97	63·33
D. Total loans and grants excluding those under U.S. Public Laws (A+B+C)	363·42	1421·88	2489·16	4274·36	196·60	890·25	2027·10	3112·01	1162·88
E. U.S. assistance under P.L. 480 and P.L. 665 and Third Country Currency Assistance	16·92	1130·74	450·63	1598·28	5·10	545·06	853·22	1403·10	135·18
F. GRAND TOTAL	380·34	2552·62	2939·79	5873·64	201·70	1435·31	2880·32	4515·11	1357·53

N.B. Amounts are in Crores.
Crore = 10,000,000 Rs.
(cf. Table 7.1 of *E.S.*, 1965–6 and 1966–7).

current importation. Consequently, the problems of financing the Fourth Plan will be extremely acute.[1]

India obtained a total of nearly 59 thousand million Rs. of external financial assistance during the first three Plans. The assistance helped India to solve her balance of payments problems as well as those caused by the financing of public expenditure, when the aid was not given over to private investment.

Where the Assistance Came From

At the end of the Third Plan, the total of loans obtained by India (excluding grants acquired under P.L. 480 and P.L. 665) had risen to 58·7 thousand million Rs. (reaching 55·7 thousand million Rs. if U.S.P.L. grants are included). The I.B.R.D. had loaned 42 thousand million Rs. of this sum and the International Development Association (I.D.A.) 2·8 thousand million Rs. The United States headed the list of creditor countries with 12·8 thousand million Rs., followed by the U.S.S.R. (4·8 thousand million Rs.), West Germany (4·5 thousand million Rs.), the U.K. (3·3 thousand million Rs.), Japan (1·4 thousand million Rs.), Italy (642 million Rs.), Czechoslovakia (631 million Rs.), France (476 million Rs.), and Canada (467 million Rs.); Yugoslavia, Holland, Switzerland and a few other countries came a long way behind.

There has been a spectacular increase in Soviet aid since March 1, 1965. After Mr Shastri's visit to Moscow, the U.S.S.R. agreed to a supplementary loan of 6 thousand million Rs. towards the financing of projects already mapped out (i.e. the Bhilai and Bokaro steelworks in particular, and ten new projects). The remainder is to be used for buying raw materials, spare parts, and aviation equipment from the U.S.S.R. These loans are repayable, like the former ones, in twelve years and by Indian products. The interest rate is 2·5 per cent. The Bokaro project stands to gain most; its initial capacity should be 1·5 to 2 million tons and its final capacity 4 million tons. The United States Government had considered giving assistance for this project, but the American Congress was opposed to such massive aid for the Indian public sector.

[1] The amount of aid required for the period of the Fourth Plan is currently estimated at \$(U.S.)8,400 million.

The Conditions

The conditions attached to loans vary according to the creditor country or organization. The I.B.R.D. lends on costly terms: the interest rate is generally 5·75 per cent and the term 20 years, sometimes even 10. The public sector has been granted I.B.R.D. loans for railways, power stations and ports. The I.D.A. lends on favourable terms: an interest rate of 0·75 per cent, repayment in 50 years, with a permissible delay of 10 years.

The United States has been lending on very strict conditions; the Exim bank demanded an interest rate of 5·75 per cent with a 15 year term and permissible delay of 5 years; other American loans have been accorded with 3·5 per cent interest rates and 20 year terms. However, the United States has agreed to give India I.D.A. loans during the third Plan of about 9 thousand million Rs. at an interest rate of 0·75 per cent, repayable in 40 years with a delay of 10 years. These seem better conditions than for the Soviet loan, but repayment in dollars may be difficult. Besides, it is well known that India has to pay higher prices for equipment to the U.S.A. than to other countries.

The new loans offered by America and by the I.B.R.D. (through the I.D.A.) makes Russia's offer appear less surprisingly favourable than at first. It must be added that Rumanian and Czechoslovak credits, like the Soviet loans, are accorded at 2·5 per cent and are also repayable in rupees.

The West German, British and Japanese credits have respectively 10 to 25 year terms (with a 7 year delay) at between 3 and 5 per cent interest rates; from 5·5 to 6 per cent rates (but in fact 3 per cent since 1963); and for 5 to 18 years, with 5 years' grace, at 5·75 to 6 per cent. Canada, which is not a big lender, has given credits totalling $254·4 million repayable after 15 to 20 years (with the possibility of a three to four year delay) and at interest rates of about 6 per cent. Deliveries of wheat, non-ferrous metals, pulp, and fertilizers must be paid for in rupees, which are given to help developing projects. The same system of 'counterpart funds' is used for much of the U.S. surplus handed over under P.L. 480.

Where the Credits Go

The capitalist countries and the I.B.R.D. normally give their loans to the private sector, or to the public sector for transport projects (railways, ports, roads) or for dams (whether irrigation or hydro-electric plants). Minor exceptions are made for small-scale industrial projects, but these

are not normally financed in the public sector (which explains why it was difficult to get credits for Bokaro). The Tata group has a large share of the credits. It is usually the enterprises collaborating with the U.S.A. which are given loans, whence the increase in collaboration.

The United States often tries to put pressure on India to transfer projects originally designed for the public sector to the private sector (as in the case of fertilizer factories).

The policies of other capitalist countries are similar to the American policy, but are more flexible. The U.K. for example, has financed some projects in the public sector, such as the Durgapur steelworks and the Bhopal heavy electrical equipment plant; West Germany has financed the steelworks and fertilizer factories at Rurkela and Neyvele.

Some of the capitalist countries' credits are used to pay for raw materials, semi-products, spare parts, and various types of equipment. This is quite a recent development which is important to the Indian Government because of the growing difficulties over the balance of payments. This means that a fairly large share of the credits is used for the current needs of the economy and not for development.

The socialist countries' credits are directed mainly towards the construction of basic industries in the public sector. These loans have been the most useful for increasing India's self-equipment capacities. Most of these credits are attached to specific projects. Since the beginning of 1965, however, Soviet aid has taken a new turning. The Commercial Attaché to the Soviet Embassy in Calcutta said (during a press conference at the time of the Russian Exhibition) that the Soviet Union was prepared to assist basic industries in the private sector.

The utilization of large-scale external financial assistance weighs with increasing force on the balance of payments (as we shall see in greater detail in the next chapter). India is forced to seek new aid and to increase her debts. Nor do recent transformations allow her to dispense with foreign aid. On the contrary, the Draft of the Fourth Plan foresees a deficit in the balance of payments which may reach $(U.S.)84 thousand million during the five years of the Fourth Plan (excluding imports of American surplus goods). This is a low estimate, based on an optimistic view of imports and exports.

On the whole, recent years have seen an unfavourable change in the relationship between internal accumulation and external assistance. The change is contrary to China's, for since 1960 China has been self-reliant, and in 1965 even finished paying off her debts. Chinese economic

policy, with its watch-word of 'self-reliance',[1] is in direct contrast to the Indian. China's achievements are significantly greater than India's. This is mainly so because of the different social and economic sytems.

Nevertheless, in some respects the Indian Government's policies in recent years have given undeniable results. They have provided large foreign resources for development. But they have not succeeded in mobilizing the underemployed rural productive forces nor in creating the large-scale technical advance which is indispensable if any improvement is to be made in the standard of living. Also, they have favoured the owning classes to the detriment of the workers.

The basis of self-sustained economic growth has not yet been assured. Public expenditure on development has been increasingly financed by borrowing.

Internal loans and an increase in the money supply have given increasingly large resources to cover public expenditure on development. During the First Plan, these sources provided 10·2 thousand million Rs. and during the Second Plan, nearly 23·6 thousand million Rs. (19) As bank loans are included in these figures (funds from the Reserve Bank of India also), one can understand that this is a source of considerable inflationary pressure, especially as private enterprises also rely to a large extent on the banking system.

Even so, external assistance has outstripped internal financing. Development expenses financed by external aid were 14 per cent of the total during the First Plan, 19 per cent during the Second, and 35 per cent during the Third.

This means that no long-term answer has been found to the problem of how to finance India's expanding development effort; what is worse, the problem seems more acute than it was a few years ago.

NOTES TO CHAPTER X

(1) Of course the accumulation without monetary transaction has to be expressed in purely conventional and approximate terms.

[1] This also means that within each production unit an effort is made by the workers themselves to improve techniques and to use existing capacities. This is an important factor in China's economic progress. The attention given to agriculture and allied industries (under the slogan of 'taking agriculture as a basis and industry as a dominant factor') has also enabled China to make big steps in basic development. (17)

(2) Cf. Baldur Kumar, 'Estimates of Domestic Fixed Capital Formation in India, 1948–9 to 1954–5', in *P.N.I.*, pp. 122–34, particularly p. 123. According to this source, the gross fixed capital formation in 1950–1 reached 9·4 thousand million Rs., and depreciation 4·2 thousand million Rs.

In 1951–2, the net fixed capital formation reached 6 thousand million Rs. (*ibid.*, p. 123), and the net capital (including stock variations) 7 thousand million Rs. (cf. B. K. Barpujari, 'The National Accounts of India 1951–2 to 1955–6', in *P.N.I.*, p. 98).

Recent studies have valued the total amount of gross capital formation in 1950–1 at 11·2 thousand million Rs., of which 10·3 thousand million correspond to the amount of gross fixed capital formation; depreciation being valued at 6·4 thousand million Rs. the net capital formation would have been 4·8 thousand million Rs. (cf. *N.I.S.-E.G.C.F.*, pp. 64–65).

On the problem of stock variation, see also Uma Datta, 'Increase in Inventories in Relation to Fixed Capital Formation and National Income', *P.N.I.*, pp. 135–42.

(3) Investments calculated according to the report mentioned above by B. K. Barpujari, pp. 94–95. These rates, which only take into account the fixed capital investments do not, of course, agree with the total of investments reproduced in the table in Chapter VII.

(4) Cf. *supra*, Chapter IX, pp. 299–307.

(5) In fact, a study of the financing of private investments would require a detailed technical analysis which has no place here. Those interested in this problem, should consult the report by K. V. R. Avadhani, A. K. Ghosh, R. M. Honavar, and M. L. Trikha: 'Savings in the Indian Union, 1949–50 to 1954–5', in *P.N.I.*, pp. 107 *et seq.*, and *N.I.S.-F.G.C.F.*

(6) These figures only take into account the monetary accumulation.

(7) *Economic Survey* 1960–1, p. 15, and *E.S.*, 1965–6, p. 20.

(8) Cf. *R.F.F.Y.P.*, p. 35 *S.F.Y.P.*, pp. 77–78: *M.T.A.*, pp. 30–31. *D.O.F.th.F.Y.P.*, p. 77. In this table, the term 'Expenditure on Development' is taken in the restricted sense indicated in note 1, p. 346.

(9) The tariffs and prices current at the end of each Plan.

(10) Incorporated in the 7·5 thousand million Rs. above.

(11) Including the tariff increases.

(12) Cf. *M.T.A.*, pp. 30–31.

(13) The same sources as for the table on p. 348. The term 'Expenditure on Development' is taken in the same sense as in this table.

(14) See *Absorption and Pattern of Ownership of Government Debt in India*, Reserve Bank of India, February 1960.

(15) Cf. *E.S.*, 1964–5, pp. 30–32.

(16) Cf. *M.F.F.Y.P.*, p. 23.

(17) Cf. Ch. Bettelheim, J. Charrière, M. Marchisio: *La Construction du Socialisme en Chine*, Maspero, Paris, 1965, 183 pages, particularly pp. 168–9. Cf. also Ch. Bettelheim 'The Quality of China's Socialism', *Monthly Review*, June 1965, pp. 46–47.

XI

ECONOMIC RELATIONS WITH OTHER COUNTRIES

INDIA'S main industrialization problems are not caused by a lack of resources. Her main difficulty lies in exploiting these resources, including the land, to the fullest possible extent. Current underemployment shows that the social structure is mainly to blame for the slow rate of accumulation and of economic growth.

The weakness of India's basic industries is another negative factor. Imports have to be increased when a rapid increase in industrial growth is aimed at. India must therefore take immediate steps to develop her industrial structure and increase exports so that she can pay for the increased volume of imports necessary for industrialization.

Unfortunately, the first few years after Independence confirmed the fact, visible from previous statistics, that it is not easy to increase the volume of traditional Indian exports. Between 1949–50 and 1953–4, the volume of Indian exports had not increased. They had progressed in value, but not very much; by 8 per cent in four years (1), which is to say by less than 2 per cent a year.

We shall study, first, the reason why Indian exports are slow to expand; then, the measures taken since Independence to solve this problem; and finally, the effects of those measures on imports and exports. These are important questions at present, for the balance of payments situation may well be one of the most awkward difficulties confronting India in her attempt to continue development even at the moderate pace achieved in the last few years.

I. THE SLOW EXPORT RISE

The first reason why India's exports were slow in expanding is that the exports she could offer were not very varied. Her three main exports are still jute, cotton, and tea. These three products alone accounted for nearly 60 per cent of India's total exports between 1948 and 1950. Foodstuffs, raw materials, cotton goods and jute constituted about 90 per cent

of India's exports during this same period. These exports have one factor in common: demand for them has very weak elasticity. Even if their prices fall, demand rises little, and consequently the country's receipts tend to diminish. Increased receipts from this type of export depend mainly on self-development of the external markets through the expansion of final consumption or of the consumer countries' industrial production. India's traditional external markets are not expanding quickly enough for her to increase her exports by the necessary amount under the pressure of her required importation of industrial equipment. Consequently, the 1966 devaluation is not likely to be of help in increasing exports. It may even have an adverse effect by lowering the unit export value of Indian goods (which seems to be happening at present). The main effect of devaluation may thus be to restrict imports, increase internal prices and slow down economic development. In the months following devaluation, many investment projects had to be abandoned.

The second reason for the slow rise in exports is that, until recently, India had important commercial relations with a very small group of countries (the United Kingdom, America, and a few others) whose rates of development were relatively slow.

2. MEASURES TAKEN TO IMPROVE THE BALANCE OF TRADE

The Indian authorities were not quick to realize that their development policy would have an important effect on foreign trade. As India's balance had long been positive, it was thought unlikely that a deficit in the balance of trade would slow down progress.[1] The government waited until action was inevitable before taking any decisions. The measures which were then adopted bear the marks of expediency rather than of far-sightedness.

Nevertheless the idea that it would be necessary to substitute national production for imports was accepted even before the start of the First Plan. In the domain of agricultural production, the idea gave rise to the Grow More Food Campaign, and lay behind increases in the national production of jute and cotton.

[1] These theories explain why India joined G.A.T.T., although to do so was to hinder her freedom of manoeuvre in the sphere of foreign trade. There was also some pressure from Indian commercial interests who were to benefit from India's joining G.A.T.T.

The awkward situation of the jute industry was due to Partition. Most of the raw material for Indian factories came from plantations in Pakistani territory. The Indian industry was forced to rely on imports until the new measures to increase jute production had borne fruit.

Under the Five-Year Plans, measures were taken to increase national production of goods formerly imported. Financial groups were often interested in financing new production with a guaranteed domestic market, which was the case for previously imported products; these groups were strongly in favour of import substitution.

However, little foreign currency was saved by the new private-sector projects, for it was often necessary to import large quantities of raw material needed for current production. The government tried in some cases to impose a progressive substitution of Indian for imported raw materials, but met with considerable opposition, especially when foreign capital had been invested in the new industrial enterprises.

The classic measures of tariff protection were used to help the substitution policy through. As was mentioned in Chapter IX, they were prepared by a new Tariff Commission (replacing the former Tariff Board), which began work in January 1952.

The Tariff Commission was to examine the situation of industries on the development programme, and to see that suitable steps were taken to ensure that they would expand in the best possible conditions. The Tariff Commission could set protective tariffs, reduce import duties on raw materials, on industrial products or on equipment of essential development importance. It could also propose changes in the domestic sale-prices of some products to increase the new industries' margins of profit in order to attract new capital into the industries concerned.

The Tariff Commission's proposals, supplemented by those of the Industrial Development Councils, form the main body of tariff and import measures set out in the Five-Year Plans.

During the First Plan, the policy was one of increasing freedom of importation, which was considered healthy for India's development needs. The policy suddenly changed at the beginning of the Second Plan when the foreign exchange resources fell abruptly and drastically. A new policy of import quotas was put into action and was followed until early in 1957, when it was tempered by increasing some of the restrictive quotas. Later, due to balance of payments difficulties, new drastic cuts had to be made in imports. Following the 1966 devaluation, the import-quota policy has again been relaxed.

On the whole, the import-quota policy was essentially empirical. It allowed the government to adapt its policy, month by month almost, to the balance of trade situation and to the material needs of the economy. It is not therefore surprising that apparently contradictory measures were taken at close intervals.

In such conditions, the import-quota policy could not have any great effect on investment decisions or on the future increase of some domestic products. On the other hand, import restrictions caused difficulties to many enterprises which were forced to work below normal capacity.[1]

Many efforts were made to increase exports, but they were limited in scope. Various Councils for the Promotion of Exports were created. Eight Councils existed at the beginning of the Second Plan, and some of them had been working for several years. They attempted to increase exports of cotton, silk and rayon fabrics, plastics, goods produced by the engineering industries, etc. The Councils undertook market research, and opened offices in West Asia, South-East Asia and Africa. The Council for the Promotion of Cotton Exports was one of the most active.

In February 1957, the Indian Government set up a Committee for the Promotion of Exports to direct the Councils and to work out export policy. It was also given the task of deciding how the foreign exchange resources needed for the Second Plan should be acquired. It seems a little surprising that the government took this measure a year after the Plan had gone into action. The Committee's recommendations (3) contained nothing new; most of the points touched upon had already been included in government policies. Its main recommendation was that customs duties on the export of some products—which provided quite large sums for the Exchequer—should be kept as low as possible.[2] It also recommended that the excise duties levied on exports and other similar

[1] Sir Donald MacDougall, in an article on India's balance of payments, points out that one-third of Indian industries worked at 60 per cent or less of their full capacity in 1961. The situation has not improved since. Of course, restrictions on imports of raw materials, spare parts, etc. are not solely to blame for this. Underutilization of productive capacities is actually greater than it appears, since the productive capacities of three-quarters of the industries are calculated on the basis of only one shift. (2)

[2] Export duties brought in 400 to 500 million Rs. a year. The Committee was hard put to it to suggest a compensatory source of revenue if the export duties were suppressed (see pp. 37 and 38 of the Report quoted in Note 3 at the end of this chapter.)

taxes should be repaid to the exporters according to a fixed scale. It declared that more councils should be created. It emphasized the importance of such bodies as the Tea Board and the Coffee Board. It suggested that an insurance company underwriting export risks should be formed, and that was in fact done in 1957, the government providing 50 million Rs. of capital. Some fiscal measures to stimulate exports were also decided upon. (4)

Efforts were made to open up new markets for Indian exports. A number of trade agreements were signed by India during the Second and Third Plans, and greater efforts were made to take part in international fairs and exhibitions.

However, industrialists and private exporters did not do all they could have done to find new outlets. One difficulty was the high cost of prospecting new markets. Possible exporters did not always feel that profits would be worth the expense entailed. There was little or no spontaneous attempt to sell to countries with planned economies, apparently because exporters to such countries cannot get away with a certain amount of their profits undetected by the exchange and tax controls, as it the case where private agreements are concluded. Since private enterprise was lacking in the export field, the government set up a State Trading Corporation in May 1956.

This company is entirely State-owned, and at its creation had a capital of 10 million Rs. It job is to stimulate trade and principally exports, but also, if necessary, imports. It tried to develop exports to the socialist countries, and to ensure that India's supply of steel, cement and industrial equipment was regular and sufficient. This it did by concluding agreements which were geared to economize the country's foreign exchange reserves, at least temporarily. The S.T.C. has undertaken fairly important export operations in metal ore, footwear, crafts, salt, tea, coffee, and woollen goods.

The S.T.C. was given a quasi-monopoly in some operations, such as iron ore exportation. Its agreements are usually carried out by private importers or exporters, who may earn the usual profits. The S.T.C. has not a monopoly of State importation, which comes to much more than the S.T.C.'s turnover. (5)

On the whole, the measures taken to adapt the volume and the structure of India's foreign trade to her development needs are not very impressive. It is hardly surprising that results in this field have not eliminated the dangers which lie in store for the Indian economy.

3. EFFECTS OF THESE MEASURES

The Substitution of National Products for Agricultural Imports

The results of this campaign for import substitution were not impressive, and they were particularly poor as far as agricultural produce was concerned. We have already seen that the rise in foodgrain production was small and that imports had to be increased considerably. They had in fact decreased towards the middle of the First Plan because of good harvests. Grain and flour imports—nearly 3·5 million tons before the First Plan—were only 804,000 tons in 1954 and 750,000 tons in 1955. But there was a reversal of the situation in 1956 and grain imports were once again well above a million tons a year. In 1960, 4·9 million tons of grain were imported. Owing to a bad harvest, import requirements for 1966–7 are estimated at 14 million tons.

FOODGRAIN IMPORTS
(value in thousand million Rs.)

1955–1956	0·3
1956–1957	1·1
1957–1958	1·7
1962–1963	1·7
1963–1964	2·0
1964–1965	3·1
1965–1966	2·9*

*Freight reimbursements on PL 480 imports are, unlike the previous years, not included from April 1, 1965.

The rise in foodgrain imports is the sign, in the sphere of foreign trade, of excessively slow progress in agricultural production.

Imports of raw jute have been reduced by a fairly large amount since domestic production has increased. But raw cotton has not been produced in quantities sufficient for industrial needs; the annual average importation of raw cotton rose from 110,000 tons between 1955 and 1959 to 185,000 tons between 1960 and 1964, although exports of cotton goods fell sharply after 1957–8.

The following table shows the total availabilities and the percentage of imports for the three main agricultural products imported by India:

JUTE, COTTON AND FOODGRAIN IMPORTS AS PERCENTAGES OF TOTAL AVAILABILITIES (6)

Product	Unit	Availabilities 1950–1951	Imports as % of avail. 1950–1951	Availabilities 1955–1956	Imports as % of avail. 1955–1956	Availabilities 1965–1966	Imports as % of avail. 1965–1966
Raw cotton	100,000 bales of 400 lbs.	39·5	27·6	45·5	13·2	59·3	10·9
Raw jute	„	57·3	35·3	57·1	25·9	60·7	8·4
Food-grains	Million Tons	56·24	6·5	67·25	0·6	86·9	7·4

The Substitution of National Products for Industrial Imports

There is a difference between the First Plan's approach to the industrial import question and those of the other Plans. During the First Plan the size of industrial investments and their allocation did not give much opportunity for any substitution to be made. During the Second Plan, it was possible to reduce some equipment imports destined for industries producing consumer goods, and some non-foodstuff imports, without causing internal supply to fall off. Non-foodstuff imports were actually reduced by about 30 per cent. There was not an equivalent amount of substitution; the reduction was brought about by the government's restriction imposed because India's foreign exchange reserves in 1955–6 were getting dangerously low.

During the Third Plan, imports of raw materials, components, and intermediary products required by the non-equipment-goods industries showed only a slight decrease from 3,850 million Rs. in 1961–2 to 3,700 million Rs. The downward trend in imports of finished goods continued: in 1965–6, their value was about 190 million Rs. against 220 million Rs. in 1961–2. These reductions have been offset by the increased imports of foodgrains and goods required by the machine-building industries; the latter imports rose from 1,610 million Rs. in 1961–2 to 2,850 million Rs. in 1965–6. There are two reasons for this. In the first place, a large part of the increase in production which was substituted for previous

imports itself required quite large-scale importation, although of a different kind. Thus, instead of importing some ready-made machinery India is now importing the parts which are necessary for the assembly of the machines. Likewise, instead of importing drugs already prepared India imports the semi-products from which the drugs can be made up. Often the only saving from the point of view of the balance of payments is of the final transformation and conditioning expenses.[1]

Added to this, part of substitution production has only been possible through collaboration with foreign capitalists who wanted to retain their hold on the Indian markets and who feared quota and excise constraints. Consequently the Indian economy has to pay interest charges, dividends and royalties for the use of foreign patents. India's net gain in the balance of payments through substitution of national for foreign industrial products is lower than it may seem, but it certainly exists.

Another point must be mentioned: many new industries produce consumer goods for which there is a new demand by the richer sections of the population who have profited from the economic progress achieved during the first three Plans. Most of such industries are big importers of raw materials and semi-products; *their existence means an increase rather than a decrease in the charges weighing on India's balance of current payments.*

As we have already observed, once these industries exist, it is not easy to cut down their imports by quota restrictions. Such action would cause unemployment in the industries concerned. Consequently, the appearance of these industries means continued importing which cannot be reduced immediately.

The only way to cut down the imports required by such industries without causing unemployment and loss of economic activity will be to increase the national output of the raw materials and semi-products required by them; this process has hardly begun, and will take some time to complete. Until these new industries can rely on internal supply of materials, they will be of no help to the balance of payments, and will even make the situation worse. Thus, the creation of some new industries has brought about *new and particularly serious disproportions.*

This is one factor which explains why India's balance of trade has moved the wrong way despite increases in national production. The table opposite has much to say on this point.

[1] This we pointed out in Chapter IX, when describing India's 'pseudo-industrialization'.

INDUSTRIAL IMPORTS AS PERCENTAGES OF TOTAL AVAILABILITIES (7)

Product	Unit	1950–1		1955–6		1965–6	
		Availabilities	Imports in % of avail.	Availabilities	Imports in % of avail.	Availabilities	Imports in % of avail.
Bicycles	1,000 units	264	62·5	199	22·4	1,582	—
Machines for sugar refineries	Million Rs.	10	100·0	41·9	95·2	762	0·8
Petroleum products	Million litres	2,725	92·9	4,173	42·2	8,620	27·9*
Iron and steel	1,000 tons	1,391	25·2	2,219	41·5	5,415	16·7
Caustic soda	1,000 tons	34	64·7	96	62·5	292	25·4
Machine tools	Million Rs.	29·5	89·8	52·8	84·8	608·8	61·8
Paper and cardboard	1,000 tons	151	23·2	260	26·9	583	4·1

* 1963–4.

It can be seen that although production of some goods has increased substantially, the increase has not always caused a drop in the total amount of imports required. The important point is that, despite the declaration made in the Second Plan, the government's economic policy has not resulted in a reduction or even a stabilization of imports required for development and for increased investments. Consequently, as we have seen, imports of machinery and equipment have increased alarmingly in recent years and overall imports have risen steeply. (8) The effect on the balance of payments is dramatic. Only a rapid increase in food production and in basic industrial production (steel, heavy equipment goods, aluminium, chemicals etc.) can ease the tension.

The Effort to Increase Exports

Efforts to increase and diversify exports met with little success during the first two Plans. In a period when international trade developed exceptionally quickly—almost doubling every ten years, and at a rate of 7 per cent per year—the value of Indian exports showed a relatively small increase. There were merely fluctuations around an average of 6 thousand million Rs. a year. (9) However, exports increased in value at a much better rate during the Third Plan. Between 1961 and 1965, the average increase was about 6 per cent a year. This rate of growth may not be sustained; the unfavourable movement of the terms of trade may cause further difficulties.

The major characteristic of exportation during the First Plan was a tendency for the value of cotton goods and jute exports to fall (influenced by a sharp fall in prices). This tendency was counterbalanced by a fairly large increase in tea exportation due to a price rise, and an increase (but not so great) in the quantity of tea exported.

There has been some improvement in the structure of exportation during the Second and Third Plans. During the Third Plan, the three major exports tea, jute, and cotton goods still accounted for about 44 per cent of total exportation, against 53 per cent in the First Plan. This means that a small improvement in the structure of India's exports has taken place recently. (10)

In spite of this, India's export position is still unsatisfactory. The country still relies, as before the First Plan, on her three major exports, whose markets are very unstable and are tending to shrink. There is growing competition from other countries, especially in tea and in cotton goods. Most of the underdeveloped countries are beginning

their industrialization with a drive to export textiles. The future for traditional Indian exports is not too bright.

Above all, the increase in exports of otherwise non-traditional goods is rather weak, so that the agricultural sector and goods manufactured from agricultural products continue to be the major source of export earnings. This is a bad sign from the point of view of external receipts, internal employment and market stability. India must increase her exports of goods if she is to make any headway in foreign trade. Otherwise there seems little hope of covering imports by export receipts.

New Markets

Has the recent economic policy succeeded in finding new markets for Indian products?

In the first place, Indian exports to the Sterling Zone have decreased regularly since the start of the Plans. Between 1948 and 1950, they accounted for 56·4 per cent of India's total exports. In 1955–6, the percentage dropped to less than 52 per cent; in 1958, it was little more than 48 per cent; in 1960, 43 per cent; in 1964, 35 per cent. Obviously, the destinations of Indian exports have altered. The first sign of change was the reduction of exports to countries in the Sterling Zone other than Britain. More was exported to the U.K. itself: 22 per cent of all exports in 1948–50, 26 per cent in 1955–6, and 28 to 30 per cent towards 1958–1960. But the percentage had fallen back to about 20 per cent in 1964–5.

Exports to the U.S.A. have remained at an almost constant level; 16·3 per cent in 1948–50, 16 per cent in 1959–60, and 18 per cent in 1964–5.[1]

An important point is that exports to India's neighbours have decreased. In 1951–2, Pakistan, Burma and Ceylon absorbed about 11 per cent of India's exports. Towards 1958–60, the amount had dropped to about 6 per cent, and was less than 4 per cent in 1964–5. The drop is considerable. It is not easy to tell whether it is a temporary change, set off by political factors, or a permanent one. Political factors have certainly been in play.

[1] Such stagnation creates a serious problem because the United States provides a large part of India's imports (about 4·4 thousand million Rs. of merchandise in 1964–5). That same year, imports from the United Kingdom reached a total value of 1·6 thousand million Rs., leaving a positive balance of 100 million Rs. Trade with the U.S.A. showed a negative balance, with a deficit of about 2·9 thousand million Rs.

The effort which has been made to export to Continental countries has not so far been very successful. Exports to the four main buyers—West Germany, France, Holland and Italy—have risen from 4·6 per cent of the total in 1951–2 to 5·4 per cent in 1956–7, but this is still a small amount. In 1964–5, exports to these countries accounted for less than 6 per cent of total exports.

Exports to Japan have risen quite steeply. Between 1950 and 1960, the value of these exports increased three and a half times, and their total percentage increased from less than 2 per cent to about 5·5 per cent. In 1964–5, they were more than 7·4 per cent.

The most important and most marked improvement was in the figures for exports to the socialist countries, where in 1948–50 there was almost no market for Indian products. In 1955–6, only 0·8 per cent of India's exports went to the socialist countries. But at the end of the Second Plan, they reached almost 8 per cent of the total, with a value of about 600 million Rs. In 1960, there were new agreements between India and most of these countries, providing for much increased exports. The volume of exports to Russia (India's principal customer in the socialist countries) was to be doubled between 1961 and 1963. By the end of the Third Plan, India's exports to the socialist countries reached more than one thousand million Rs.[1]

Apart from these last changes, there has not been enough development in India's export trade to support the policy of economic growth. Recent years have therefore seen difficulties in the balance of payments situation.

4. EFFECTS OF RECENT ECONOMIC DEVELOPMENT ON THE BALANCE OF PAYMENTS

India's First Plan was not ambitious, and therefore required little effort, even in the field of foreign trade; in consequence, four of the five years showed a surplus in the balance of payments. The only year in which there was a deficit was 1951–2 and the deficit is unconnected with large-

[1] 'Traditional' Indian exports are still the most important in the exports to socialist countries. These countries absorb 40 per cent of India's coffee exports, 30 per cent of her tobacco exports, 60 per cent of raw hides, and 20 per cent of the spices, iron ore, groundnuts and groundnut cakes exported. Jute exports are also large.
The 1964–5 agreements provide for export increases of 25 to 50 per cent and give more place to Indian manufactured goods.

scale expenditure on development, as is evident from the low level of spending in that year.

The following table shows the balance of payments position during the First Plan.

BALANCE OF PAYMENTS AND BALANCE OF TRADE DURING THE FIRST PLAN
(in Rs. million)

	1951–52	1952–53	1953–54	1954–55	1955–56
Balance of trade	−2,328	−311	−521	−872	−1,095
Invisibles (net)	+ 702	+913	+995	+932	+1,294
(Official donations included in invisibles)	(53)	(108)	(190)	(158)	(450)
Current balance	−1,626	+602	+474	+ 60	+ 199

Over the period as a whole, the balance of payments deficit amounted to roughly 290 million Rs., or less than 60 million Rs. a year. This deficit was cancelled in the main by foreign loans and investments totalling about 1,150 million Rs. over the five years. India could therefore increase her foreign exchange reserves during the same period.

Two factors of great importance had a favourable effect on the balance of payments situation throughout the First Plan: the good harvests and the small amount of machinery imported (the latter confirming the lack of effort towards development at this time).

The Balance of Payments Deficit during the Second and Third Plans

During the Second and Third Plans, India's balance of payments was influenced by factors differing from those which affected it during the First Plan. On the other hand, there was a much greater effort towards internal development; on the other, agricultural production was much less favourable.

In the field of international relations, the Suez crisis and the 1957–8 depression had a negative effect upon the balance of trade and therefore on the balance of payments. The table overleaf gives the resulting figures.

(11)

BALANCE OF PAYMENTS AND BALANCE OF TRADE DURING THE SECOND AND THIRD PLANS (RS. MILLIONS)

	1956–67	1957–58	1958–59	1959–60	1960–61	1961–62	1962–63	1963–64	1964–65
Balance of trade	−4,643	−6,095	−4,530	−3,049	−4,752	−3,337	−4,091	−4,290	5,933
Official gifts	395	327	356	380	452	459	767	789	1,238
Other invisibles (net)	1,125	1,009	904	754	376	−146	−131	148	168
Current balance	−3,123	−4,759	−3,270	−1,856	−3,924	−3,064	−3,455	−3,353	−4,367
Official loans (gross)	307	923	2,225	1,873	2,556	2,741	3,949	4,428	5,891
Other capital movements	20	933	883	306	936	−402	−593	−263	−1,373
Drafts on the I.M.F.	607	345		−238	−107	584	119	−238	—
Errors and omissions	16	−41	−291	−245	−63	78	−43	−466	−714
Change in foreign exchange reserves	−2,213	−2,599	−433	−160	−592	−63	−23	+108	−561

This table affords a striking illustration of the changes in the balance of payments position after the beginning of the Second Plan.

Henceforth, the deficit in the balance of trade was almost constantly above 4 thousand million Rs. (as in 1962–3 and in 1963–4) and reached nearly 6 thousand million Rs. in 1964–5. This results from the large increase in importation. As the net balance of invisibles had decreased, there was an annual deficit of more than 3 thousand million Rs. in the balance of payments after the end of the Second Plan.

Despite official loans and other capital movements, these annual deficits caused a drastic reduction of India's foreign currency reserves. They dropped by about 6 thousand million Rs. during the Second Plan. They were then at a minimal level (2·4 thousand million Rs.) despite the help of strict import controls and of large drafts on the I.M.F. which totalled about 1 thousand million Rs. during the first three years of the Third Plan and it went above 4 thousand million Rs. in 1964–5.

We shall not return to the reasons why the deficit in the balance of payments increased. It will be remembered that the two main negative factors were the insufficient expansion of agricultural production and the disproportions in industrial development (the lag in basic industries and particularly in those producing equipment). Added to these factors was the effect of a rapid increase in consumption among the richer classes which, directly or indirectly, caused a rise in the volume of imports.

The final element which contributed to the deterioration in the balance of payments was the net reduction of invisibles other than gifts. Here is the counterpart of India's increased economic dependence upon other countries, revealed in the form of higher patent charges and higher interest and repayment rates for foreign capital. India's growing debt is seen to be both a consequence and a cause of her balance of payments deficit.

5. INDIA'S GROWING DEBT DURING THE FIRST TWO PLANS

India's foreign debt, which is an indication of her financial dependence upon other countries, has grown rapidly.

These figures show that, between 1948 and 1959, India's total foreign debt increased threefold (until the end of the First Five-Year Plan it had only increased by 44 per cent).

The growth of the official debt has been particularly rapid. It has been multiplied by 5·4 and that mainly during the Second Five-Year Plan, when it was enlarged by more than 270 per cent.

The private debt exactly doubled during this period (+46 per cent in the years of the First Plan and +37 per cent from 1955 to 1959). It was during the Second Plan that the official foreign debt surpassed the private debt, the latter having until then been the greater.

INDIA'S TOTAL FOREIGN AID DEBT (IN MILLION RS.) (12)

	Official Debt	Private Debt	Total
End of June 1948	1·78	3·26	5·04
End of 1955	2·50	4·77	7·27
End of 1959	9·26	6·52	15·78

It should be remembered that, as in the years before Independence, a large part of the growth of this private foreign debt does not result from any transfer from outside, but is the result of a simple ploughing back of one part of the profits made in India by foreign capital, i.e. from exploitation of Indian labour, another part of these profits together with a fraction of the initial capital being returned to the country of origin. Here one is faced with a process of *self-increase* of the foreign debt.

Thus, during the years 1948–53, 'foreign investment' in the Indian private economy increased by some 1,360 million Rs., although the balance of payments statistics for this period show a net *withdrawal* of foreign capital from India, to the extent of 500 millions Rs. This means that while certain foreign investors called in a part of the sums previously placed in India, others ploughed back a share of their profits or monetary receipts sufficient to cause India's private foreign debt to increase substantially (rather than to diminish as the money recalled might suggest).

It is estimated that reinvested profits, between 1948 and 1953, totalled from 600 to 700 million Rs. and that 750 to 850 million Rs. of foreign investment corresponded to merchandise imported by foreign firms, the value of which was invested in India. Gross foreign investment totalled nearly 1,800 million Rs. of which only 300 to 500 million Rs. was fresh money.

Between 1953 and 1958 foreign investment in the private sector continued to increase, reaching almost 1·8 thousand million Rs. During this period, the largest foreign source was I.B.R.D. (723 million Rs.). The major part of the increase in foreign investment was due to profits gained in India and ploughed back by foreign capitalists (412 million Rs.). There is little fresh investment: 131 million Rs. only. One should not forget, since these figures are in gross, to deduct a much larger sum of capital recalled (408 million Rs.) and of profits payed abroad (1,340 million Rs.). If, despite the above figures of capital recalled, India's foreign debt registers the considerable increase indicated, this is due in particular to revaluation of capital and investments in kind.

Allowing for recalled capital, profits, and interest gains paid to foreign capital, it can be seen that on the whole there is almost no external contribution of private foreign capital to India's capital wealth but essentially a self-increase.

In 1959 and 1960, there was an increase in the inflow of foreign capital into India which reached 632 million Rs. in gross terms. At the end of 1961, there was a total of 6,798 million Rs. in the private sector, of which 2,950 million Rs. were invested in processing industries and 1,525 million Rs. in oil. American investment totalled 959 million Rs. A very high proportion of new foreign capital was composed of re-invested profits.

The main qualitative changes are:

1. The large increase of foreign investment in the transformation industries (which is a reflection of the progress within the domestic industries);

2. The relatively greater increase of foreign investment in the oil industry (which henceforth absorbs more than 20 per cent of foreign investment);

3. The increase, by no means negligible, of foreign investment in the financial sphere and the decrease of foreign investment in commerce.

It is difficult to tell whether the relative weight of foreign capital in India's economy has in fact diminished during this period. It is certainly remarkable that between 1953 and 1958 the rate of increase in foreign investment is of the same order as the rate of increase in the aggregate capital invested by joint-stock companies, suggesting that the quantitative relations between foreign and Indian capital do not change. But this problem should never be studied in statistical terms alone.

From a certain point of view, foreign capital has lost some of its power over India's economy. The reasons are these: foreign capital is now more involved than before in a few industries (the oil and processing industries) and has been ousted from certain key positions in the banking system, notably by the nationalization of the Imperial Bank. Moreover, it is competing with Indian private capital which has gained in overall power and has also to face a State machinery and public sector which have grown stronger.

From this point of view, private foreign capital has suffered *a slight but definite loss of power.*

But there are certain counter-changes which tend to *increase the possible influence of foreign capital*, amongst which are the multiplication of agreements of 'co-operation' between Indian and foreign capitalists[1] and the formation of a powerful nucleus of financial institutions promoting closer links between Indian and foreign capital, often to the extent of subordinating the former to the latter (cf. Chapter IX above). The fact that India is getting further into debt with the great capitalist countries can also hardly fail to increase the influence of foreign capital on the Indian economy.

Henceforth, as we have seen, the official foreign debt becomes the major part of India's total external indebtedness.

At the close of 1960, the Indian Government's principal creditors were, in order of importance, the U.S.A., the I.B.R.D., and (some way behind) the U.K., West Germany, the U.S.S.R. and Japan.

There are two more points which should be made.

First, the increase in the external debt is accompanied by a reduction of India's assets abroad (which, in 1948, were in excess of her liabilities). India's assets abroad amounted to 20 thousand million Rs. in 1948, whereas in 1955 they had dropped to 12·7 thousand million Rs., and in 1962 to about 6·1 thousand million. Fourteen thousand million Rs. of foreign assets have been absorbed whilst the external debt was itself increasing. India therefore passed from a position of net creditor to one

[1] In 1964, the Indian Government authorized 341 such agreements; in 211 of them, there was to be foreign financial participation. This meant for that year alone a total investment of 915·4 million Rs., of which 312·5 million Rs. was made by foreign capital. Indian capitalists entered into such agreements because they wanted to use foreign patents and because currency reserves were low. The firms making the agreements could not otherwise have imported the goods they required. But foreign capital gets the stronger position by reason of these agreements, and the influence it gains in this way should not be underestimated.

of net debtor. In 1962, India's net debtor position lay at about 21 thousand million Rs.

The Growing Debt during the Third Plan

The movement described above continued during the Third Plan. At the end of 1963, the total external debt had reached 26·92 thousand million Rs. (13); that is to say, it had risen 11·2 thousand million Rs. in four years. At the end of the 1963–4 financial year, India's Public Foreign Debt lay at 17·84 thousand million Rs. and was to reach 24·18 thousand million Rs. at the end of the 1964–5 financial year. (14)

One immediate consequence was that the capital and interest to be repayed weighed heavily on the balance of payments. At the beginning of the Third Plan (1961–2), these expenses totalled 938 million Rs., but will have risen to 1,648 million Rs. in 1965–6, which is 20 per cent of the total value of export receipts. According to calculations made at the end of 1963 (based on agreements which had then been concluded), these expenses should total 1,710 million Rs. in 1968–9. The figure will certainly be higher: it may reach one third of export receipts. Worse, it should continue to grow even after 1970 as the sum of foreign loans to be contracted during the coming years (about 4·5 thousand million Rs. per year) (15) being much greater than previous sums. Some of India's foreign creditors are already putting pressure on her to reduce her development effort. This would only make things worse for India's population, who are already wretched enough.

All this shows some of the effects of the serious disproportions which developed in the absence of adequate progress in agriculture and in the basic, equipment, and export industries. The impact of these disproportions is to be seen today in the balance of payments situation, which endangers future economic development.

Only a drastic restructuring of the Indian economy—and therefore a radical modification of the social forces which have upheld and impelled the present policy—could prevent the growing disproportions of recent years and their repercussions on the balance of payments from leading the Indian economy into a crisis of the utmost gravity.

The disproportions show that industrial production has increased in such a manner and under such conditions that simply to maintain the present output requires more imports than India can pay for by her exports if she is to fulfil her financial obligations. This situation naturally

bodes ill for future development, which will call for even larger imports.

Only a far-reaching overhaul of her economy and an intensified programme in agriculture, the production of raw materials and energy, the iron, chemical and equipment industries, and the export industries can save India from a serious crisis.

Sir Donald MacDougall's analysis of the Indian Balance of Payments problems (2) states the difficulties (in our opinion insuperable) which hedge any attempt to solve these problems simply at the level of external economic relations without concentrating primarily upon the internal disproportions which have developed within India's economy.

In such conditions, the Third Plan obviously could not meet the needs of the situation. The plan proposed the same type of development as did the Second Plan, but under economic, financial, and technical conditions which in no way suggested that the objectives could be reached. And the objectives were themselves outdated owing to the demands and disproportions created by previous development.

The threat of a halt to economic development which overshadows India's economy in the form of these disproportions is all the more tragic since a halt would immediately lower the living standard of the majority of the people, who suffer even under present conditions.

It is these problems relative to the standard of living of the different social groups which we now propose to consider.

NOTES TO CHAPTER XI

(1) The years 1950–1 and 1951–2, affected by the Korean 'boom', were marked by an exceptional rise in exports, but this rise was only temporary and disappeared during the following year. In 1953–4, the total value of Indian exports was 5·4 thousand million Rs. For foreign trade figures see *Statistical Abstracts*.

(2) Cf. Donald MacDougall 'India's Balance of Payments', *E.W.*, April 22, 1961, p. 635.

(3) Cf. *Report of the Export Promotion Committee*, New Delhi, August 31, 1957.

(4) See on this point J. S. Gulati's 'Export Promotion through Tax Incentives', *E.W.*, November 6, 1965, pp. 1659 *et seq.*

(5) Government imports proceeded as follows (in million Rs.):

YEARS*	
1955–56	1,389
1958–59	5,175
1959–60	4,081
1960–61	4,617
1961–62	3,643
1962–63	4,653
1963–64	6,104

(* = Budget years, April to March)

In 1958–9, these imports made up about one half of the total imports into India. The main government imports were foodgrains and equipment.

Below are some examples of government import distribution 1963–4:

GOVERNMENT IMPORTS 1963–64
(in million Rs.).

Foodstuffs	971
Equipment for government projects	2,208
Iron and steel	206
Railway material	232
Communications material	261
Others*	1,166

(*e.g. non-ferrous metals, fertilizers, mineral oils, etc.).

(6) Cf. *E.S.*, 1966–7, Table 68

(7) Cf. *E.S.*, 1964–5, p. 36.

(8) Imports progressed as follows:

IMPORTS
(in thousand million Rs.)

YEARS* (value c.i.f., statistics of the balance of payments)

1951	9·6	1956	11·0	1961	10·1
1952	6·3	1957	12·3	1962	10·9
1953	5·9	1958	10·3	1963	12·3
1954	6·8	1959	9·3	1964	13·9
1955	7·6	1960	11·1	1965	13·4
Average 1st P.	7·3	Average, 2nd P	10·8	Average 3rd P.	12·1

(* = Budget years, April–March)

(9) EXPORTS
(in thousand million Rs.)

YEARS* (value f.o.b., statistics of the balance of payments)

1951	7·3	1956	6·3	1961	6·7
1952	6·0	1957	5·9	1962	6·9
1953	5·4	1958	5·8	1963	7·9
1954	6·0	1959	6·3	1964	8·2
1955	6·4	1960	6·3	1965	8·1
Average 1st P.	6·2	Average 2nd P.	6·1	Average, 3rd P.	7·6

(*=Budget years, April–March)

(10) Among recent changes some were under the wide heading of 'Foodstuffs and Drinks'. It is particularly the case of Groundnut Cake exports, which, between 1957–8 and 1964–5 rose, from 116 million Rs. to 393 million Rs. On the other hand, vegetable oil exports, which had increased considerably, in 1964–5 were below the level of the beginning of the Second Plan. Among the exports which have increased noticeably are Iron-ore, Leathers and Hides (raw and manufactured), and Coffee. One can see that all this does not mean a significant change in the export structure.

(11) This table is put together from the statistics of the *Economic Surveys*. The evolution of total imports and government imports during the Second Plan is taken from the same source.

(12) Cf. *Times of India*, March 7, 1961. Theoretically this table only includes direct participation, excluding commercial and other debts, and shares in portfolio.

(13) Cf. 'India's External Debt', by C. G. da Costa, in *E.W.*, May 8, 1965, pp. 781 *et seq.* These figures include neither loans contracted under the heading of the U.S.P.L., nor those of the I.B.R.D. to the private sector.

(14) Cf. *India* 1964, Gov. of I., Delhi, 1964, p. 180.

(15) These are optimistic estimates based on particularly favourable expected exports. The figure of 4·5 thousand million Rs. represents the average annual estimate of debts for the period 1965–6 to 1970–1, from *M.P.D.I.*, p. 27.

XII

THE STANDARD OF LIVING

LACK of information makes it particularly difficult to judge how the standard of living in India has altered since Independence. There was little change during the first three Plans, and statistics therefore do not say very much. The high level of self-consumption and considerable price variations both make any interpretation of total consumption or buying power a hazardous task. Nor must one forget that social and regional variations are great in a country as large as India. The only satisfactory method would be to study each social group's standard of living and not attempt a comprehensive analysis.

It is specially important to find out how many living standards have gone up and how many have gone down in relation to the overall movement, and to estimate the percentage of rise or fall. Unfortunately, the amount of information available leaves us with little hope of reaching significant conclusions. We shall first give some indication of the average progress in the standard of living and then make comments about particular social groups.

I. AVERAGE INDIVIDUAL CONSUMPTION

According to official statistics, the National Income *per capita* at constant prices increased by about 18 per cent between 1948–50 and 1962–3. (1) We have already mentioned that National Income figures are not to be taken as absolutely correct although they have to be used as a basis for estimating the average individual consumption.[1] To reach the latter figure, the excess of imports over exports must be added to the National Income, and the sums spent on other than personal consumption must be deducted, i.e., investments financed from national resources

[1] A revised estimate *per capita* puts the National Income for 1950–1 at 258·4 Rs. at 1958–9 prices and at 288·4 Rs. for 1959–60 (at the same prices). According to this calculation the rise is 11·6 per cent (*N.I.S.—R.S.*, p. 189).

and consumption by the public administrative sector, from which the population do not benefit directly.[1]

If these deductions are made, the amount of individual consumption is seen to have risen by about 7·8 per cent between 1948–50 and 1963–4, which gives a rise of about 1 per cent annually. (2) This is, indeed, slow progress. The average diet in 1960–1 was only 2,040 calories per day according to United Nations statistics. (3) Moreover, social and regional inequalities meant that a large part of the Indian population was undernourished or suffered from serious difficulties in obtaining some foodstuffs. The National Income *per capita*, after an average annual increase of 2 per cent during the first four years of the Third Plan, fell by 6 per cent in 1965–6. When the State drafts on the National Income—due partly to greater expenditure on defence—are taken into account, this means a bigger decrease in the average *per capita* consumption. Even more disturbing is the new increase in social and regional inequalities. The fall in the standard of living has been considerable in the poorest regions and for the poorest social strata. The Draft of the Fourth Plan gives little hope of any improvement. It is opposed to a readjustment in the incomes of the poorest social strata should there be price rises (which seem inevitable). In other words, it is the underprivileged who will bear the brunt of investment financing and thus assume the task of increasing the incomes of better-off classes.

2. SOCIAL SERVICES

The social services given to the public should also be included in the standard of living, although access to them varies according to the region, place, and social stratum concerned. They consist mainly of education and the health services.

Public Health

When British rule came to an end, India's public health situation was poor. The mortality rate was one of the highest in the world—27·4 per cent in 1941–51 (4)—and major epidemics were frequent. The popula-

[1] As some public money is spent on education, public health and other health services, and is provided free of cost to the population, these should be included in mass consumption. We shall, in fact, try to estimate the importance of such services, but here we are only interested in individual consumption.

tion's working capacity was considerably reduced. In such conditions, the new Indian Government should have made an effort to improve conditions of sanitation and hygiene. But just before the First Plan, annual public expenditure on medicine, health services and sanitation was no more than 300 million Rs., which is less than one rupee per inhabitant.

During the First Plan, development expenditure totalled about 1·4 thousand million Rs., or about 280 million Rs. a year (plus the current Central and Provincial government spending). But the amount provided for current services was not large, for this had to finance investment in new establishments, training programmes for health service personnel, campaigns for better hygiene and better local sanitation (mainly through clean water supplies in town and country).

Very little went towards medical improvements as such. Only 250 million Rs. (or a yearly average of 50 million Rs.) finally went to public health for expenditure on hospitals, dispensaries and sanitary units. This was equivalent to less than one-sixth of a rupee per inhabitant per year.

During the Second Plan, about 2·16 thousand million Rs. were spent on sanitary and health services, but only 360 million Rs. on hospitals, dispensaries and health units. The Third Plan set side 3·4 thousand million Rs., with 600 millions (an average of 120 million Rs. per year) finally going to hospitals, health units and dispensaries. This was an increase of two-thirds on the Second Plan's expenditure and was equivalent to about one and a half rupees per inhabitant per year. In 1964, the total public spending on health (not on medicine alone) had risen to about 2·5 Rs. per inhabitant.

Despite some progress there were still too few health service institutions. Although the number of hospital beds almost doubled between 1951 and the end of the Third Plan, there are only 240,000 beds in 1966 for a population estimated at over 485 millions.[1]

The development of the health service was slowed down to a certain extent by difficulties in recruiting medical and sanitary personnel. Between 1951 and 1959 the total number of practising doctors increased by about 39 per cent, reaching 86,000 in 1959 (one doctor for 5,000 inhabitants), but recruiting of doctors for hospitals and the health service was made difficult because medical personnel were not willing to work outside the large towns where new hospitals and dispensaries had been

[1] The *N.P.D.S.* puts India's population in 1965–6 at 492 millions (p. 3).

built,[1] and because official medical personnel were paid much less than private doctors earned.

Although there are too few doctors qualifying each year the number of medical schools has increased fairly rapidly from 30 in 1951 to 80 in 1966. There are now about 10,000 first-year students whereas there were only 2,500 in 1951. However, there seems to have been some lowering of standards, if one is to believe official complaints. The reason given—by the universities as much as by the medical schools—is that teaching is done in English, while the increase in the number of students has meant that the standard of English among the students has gone down.

Finally, it can be said that despite increases in expenditure on public health, not enough is spent to cope with the present situation. However, the mortality rate has certainly decreased because of efforts to increase vaccination, and through better methods of hygiene and public health protection. Official statistics now put the mortality rate at about 21·6 per cent. (4) There are far fewer epidemics, and many illnesses which weakened the working population have been held in check.

The progress made in public health has had a visible effect on the population: the total population in 1961 was 438 millions, which was 80 millions higher than in 1951 and gives an average annual increase over the decade of 2 per cent. This is a revolutionary development which may soon cause new problems. The Indian Government has started a birth control campaign, but for the moment this has not affected aggregate figures.

Education

Some development has been made in this field, as the increase of expenditure on education will testify. During the First Plan, development expenditure totalled 1·5 thousand million Rs.; this figure was increased to 2·6 thousand million Rs. for the Second Plan and should reach 5·6 thousand million Rs. during the Third. Total development and current expenditure on education rose from 1·5 thousand million Rs. in 1950–1 to about 5 thousand million Rs. in 1964–5. Progress has therefore been remarkable, although the figures are not particularly high considering the size of India's population.

[1] At the end of the Second Plan urban districts had five times as many doctors as rural districts.

It will be useful to add some indications of how school and university attendance has increased. The following table shows the number of school pupils between 6 and 17 years of age:

SCHOOL ATTENDANCE

Year	Pupils (in millions) Age groups			per cent per age group		
	6–11	11–14	15–17	6–11	12–14	15–17
1950–51	19·2	3·1	1·2	43·1	12·9	5·4
1955–56	25·2	4·3	2·0	51·0	16·3	8·1
1960–61	35·0	6·7	2·9	62·4	22·6	10·5
1965–66 (estimated)	49·6	9·8	4·6	76·4	28·6	15·6

In 1960–1, only 62 per cent of the children between the ages of 6 and 11 went to school, which is not a high figure of school attendance for this age group. Even in 1965–6, the Third Plan did not foresee total school attendance for this age group. The situation looks poorer still for the 11- to 14-year-olds. Only 30 per cent of the children in this age group were expected to attend school in 1965–6.

Nevertheless, there has been no lack of effort in education. More than a million new teachers have been recruited for primary and secondary schools, and teacher training colleges have been quickly developed. (5)

School attendance still varies considerably according to the region concerned: for example, many more city children go to school than rural children. There is also a marked difference between boys' and girls' attendance. It is estimated that at the end of the Second Plan, about 79 per cent of the boys between 6 and 11 went to school, whereas the proportion of girls at school was only 40 per cent.

The knowledge and teaching ability of the primary school staff vary considerably and here, also, the standard has gone down. An effort is being made to put things right in this field, as well as to make teaching more practical and less theoretical.

The development of primary education was certainly an urgent necessity at the time of Independence. Schooling was inadequate under

British rule: the 1951 census showed that only 16 per cent of the population could read and write, i.e., nearly 84 per cent of India's population was illiterate. Since there has been no national campaign to fight illiteracy, and since the school-leaving age is still much too low and primary education of too poor a quality, it is hardly surprising to find that illiteracy was almost as widespread in 1961 as in 1951; it had dropped, in fact, to about 76 per cent.

One major difficulty is that by no means all schools are State-run. The private schools are often given grants by the public authorities (by the State or the municipality), but they have no means of ensuring that the education given is of a satisfactory standard. It is recognized that the primary education offered by most subsidized schools is poor in quality: headmasters are interested only in making the largest possible profits; classes are as large as possible and teachers are paid the lowest possible salaries. The lower standards are also common in State education.

The primary school teachers themselves complain that the standard of their teaching is jeopardized by a lack of respect for the teaching profession: this is a fairly new attitude and seems to have developed through the increased prestige of money and the poor economic situation of the teaching profession. These factors should be borne in mind. (6)

There is a similar variation in the quality in secondary education. Some schools have practically no equipment for teaching science: the Third Plan aimed at giving all secondary schools science laboratories and at improving equipment. Unfortunately, there is also a lack of qualified science teachers.

Management Training and Technical Education

India after Independence, although better off than most underdeveloped countries, lacked specialists, technicians and engineers. A count made just before the start of the First Plan found that there were fewer than 12,000 qualified engineers. More than 44 per cent of them were employed in public works, 14 per cent in the electrical industry, 16 per cent in the engineering industries, 16 per cent also in the electro-mechanical industries and 3 per cent in the chemical industries; only 137 engineers worked in mining. There were then 49 engineering colleges receiving 4,120 students a year and sending out 2,200 engineers per year. There were also about 86 polytechnic schools, admitting fewer than 6,000 students a year.

This structure would not have borne the strain of even a small economic development effort, and had to be enlarged. At the end of the Third Plan, about 24,000 students were entering engineering colleges each year, and more than 45,000 going to the polytechnic schools each year. Progress has been undeniable, but the Indian economy still suffers from a lack of qualified technicians and engineers in many sectors.

The Universities

The universities are expanding, in the first place because India needs more qualified men to run the country, but also because the bourgeoisie and the middle classes are now sending their children to university so that they may more easily find the sort of jobs they want.[1] Many of the students going to university do so because they want to continue their studies, but they are not sure what sort of studies it would be best for them to do.

There is certainly an uneven distribution of students among the various faculties, and a large number of students are working in fields which are not economically useful to their country. Moreover, since overall economic growth has been too slow there has been a rise in unemployment among the young people leaving university.

However, the universities have been in rapid expansion. The first three modern universities were created in Calcutta, Bombay and Madras in 1857. (7) From the beginning, studies were carried on in English, which, in 1837, replaced Persian as the official language in the law courts. In 1882 and 1887, two new universities were created, the first in the Punjab at Lahore, the second at Allahabad. At the time of Independence there were 19 universities in India: these were equipped for scientific teaching and research. By the end of the Second Plan, there had been a sharp rise in the number of existing universities, which had increased to 46, and 1,050 colleges were now in existence. The number of university students increased from more than 400,000 just before the First Plan to about 1·3 millions at the end of the Third.

University development has not been as satisfactory as could be hoped. There are still very few science students and too many are studying commercial subjects or the arts. The expansion has not taken the form most suitable to the country's requirements or to development needs.

[1] Which are not always the jobs the country would prefer them to do, i.e., scientific or technical work.

It was hoped to remedy the situation under the Third Plan, so that by the time it finished in 1965–6, 40 per cent of the students would have been absorbed by the science faculties. The target set has not been reached. (8) Nor are the social backgrounds of university students more varied. Different enquiries have shown that more than 70 per cent of university students come from the towns and only 30 per cent from the country, which is in inverse proportion to the population of town and country. Hardly any students are from working-class or peasant families: they nearly all come from relatively well-to-do families.

A survey of conditions at the University of Baroda has revealed that this fairly ordinary university drew only 7 per cent of its students from 67 per cent of the town's population in the lower income groups below 125 Rs. a month. Only 20 per cent of the students came from the 23 per cent of the town's population earning between 126 and 250 Rs. a month. But 73 per cent of the students were drawn from 10 per cent of the town's population earning more than 250 Rs. a month. University expansion has obviously done little to help the lower income groups give their children higher education. (9)

Housing

It must be remembered that the housing situation was very bad just after Independence. In rural districts the houses were without any of the modern hygienic amenities which we now consider indispensable (10); in the towns, conditions were even worse and sometimes tragic.

An enquiry made a short time before Independence showed that in the fourteen major industrial towns about 75 per cent of the workers' houses were simply huts consisting of one room in which lived an average of 4·8 people. In the textile districts of Bombay, during the year 1948, as many as 10 people were living in one room.

A later survey shows that in many dwellings 10 to 20 people occupied one room about thirty square feet in size. Often, three or four families lived in the same room. Sanitary conditions were appalling: it was not unusual to find one tap for several dwellings. (11) Despite such poor housing conditions, the working-class families were having to spend about 15 per cent of their total income on rent; one can certainly speak of exploitation by the landlords.

The housing situation of the middle classes was a little better than that of the working classes, but was also bad. A 1952 survey of conditions in Bombay (12) showed that members of the middle classes had, on

average, the use of 4 square yards (including rooms of secondary importance such as kitchens, bathrooms and lavatories). In fact, in 55 per cent of the middle-class houses there were no kitchens, in 69 per cent no bathrooms, in 73 per cent no individual lavatories, and in 52 per cent not even a tap. (13)

However, these classes were well off compared with the hundreds of thousands of refugees from Pakistan or the peasants who, finding no work in their villages, had come to seek employment in the cities. Most of them could find only part-time work and no accommodation; they camped on the pavements of Bombay and Calcutta, or in the shanty towns on the outskirts of these cities.

The few figures available indicate that in the towns there has been very little change in housing conditions: unfortunately, there are practically no statistics on housing construction in the country. The estimate given in the report on the Third Plan states that about 500,000 dwellings were built with public funds during the Second Plan. (15) Over the same period, net investments in housing and other private building totalled about 10 thousand million Rs. (16) This would have financed no more than a million dwellings. The total number of dwellings constructed per year during the Second Plan (almost all in urban districts, as village housing is not included in these statistics) must have been about 300,000.

Considering that in towns of more than 20,000 inhabitants the population rose by more than 40 per cent between 1951 and 1961, 500,000 houses a year would be needed if the situation was not to become even worse; and this excludes the number required to replace the old houses.

The Third Plan did no better. Private housing construction increased by only 10 per cent to 15 per cent; publicly financed construction should have provided 900,000 dwellings during the five years in question, but the actual figure is probably much lower (16), although this figure itself would have been insufficient.[1] Today, India lacks millions of houses; there can be no doubt that *the housing situation has deteriorated over the last fifteen years.*

The poorest classes have suffered most, as almost all housing construction has been planned for the upper and middle classes. Most of the new dwellings carry high rents, for they represent productive investments. Even public housing construction has gone ahead with the middle

[1] Urban land speculation prevents the State from carrying out its plans. As credits for buying land go up, so do prices, with the result that more and more public funds have to be spent.

classes in view; there has been practically no effort to house the working classes. Even though some of the dwellings built for the working classes are let at subsidized rents, they still cost the workers too much, with the result that some buildings are empty. (17)

Practically no progress has been made in slum clearance. A few years ago 1,150,000 houses were considered unfit for human occupation by the Advisory Committee on Slum Clearance. It was prepared to leave most of the slums standing for want of other housing and to improve conditions by constructing latrines and drainage systems, and by improving roads and street lighting. This temporary solution has allowed the situation to deteriorate as the urban population (and especially the poorest sections of it) grows larger.

Land speculation has cleared slums in some towns. Those evicted were not rehoused: some dormitories or shelters have been rebuilt for them, but overcrowding has not been avoided. It is not surprising that there has been violent resistance from those who were to be evicted.

Every year makes the problem of slum clearance more difficult to solve because of the rise in the price of land due to speculation. Building land has risen in some towns by five or ten times its original price during recent years, to 20 or 25 times in the big cities (Delhi, for example), and to 40 or 50 times in the new industrial towns (18) through the pressure of the rise in population. The Third Plan made an attempt to check speculation, which nevertheless continues to hamper any efforts to ease the urban housing situation.[1]

3. EMPLOYMENT

We have already pointed out that India must solve her problems of unemployment and underemployment. We shall now give further details about this question, despite the lack of statistics.

In 1950–1 a Ministry of Labour enquiry (19) revealed that male agricultural labourers could find employment for an average of only 218 days a year, being unemployed for the rest of the time; female agricultural

[1] As we have said, little has been done to improve rural housing conditions. Attempts were made during the Second Plan in about 2,000 villages to persuade the villagers to build their own houses by providing material and technical advice. The report on the Third Plan shows that it is still too soon to estimate the results which, in any case, concern only 0·4 per cent of India's villages. The Third Plan set a target of 125,000 new village houses.

labourers worked for only 134 days a year and were therefore out of work for more than half of the year.[1]

The above figures show how much underemployment and unemployment there is in rural India. Poor peasants who own some land, but not enough to keep them busy all the year round, are also concerned. The National Sample Survey's 5th and 6th Reports give the following information. Nearly 27 per cent of the economically active rural working force is employed for less than 10 days a month. The corresponding proportion in the urban section is 9·65 per cent. The 7th N.S.S. report indicates that in 1953–4 nearly 30 per cent of the economically active working force (about 47·72 million people) were not working full time, and nearly 20 millions were working quarter-time or less. (20)

Both rural and urban unemployment increased during the First Plan: the report on the First Plan put the total number of unemployed when the five years were over at 2,800,000. (21) No details were given about rural or urban underemployment, but it has certainly increased as well.

The Second Plan set out to prevent any further rise in unemployment. In practice, since investments were lower than expected, and considering the evolution of demand for some products and of the productivity of labour in some important industries, it is estimated that during the Second Plan the number of unemployed rose considerably, reaching a total of more than 9 million persons. (22) Partial unemployment in urban and rural districts must also have increased, but no figures are available for the Second Plan. The report on the Third Plan puts the number of underemployed at between 15 and 18 millions.

The Third Plan estimated that 17 million more people would be seeking work between 1961 and 1966. It gave optimistic figures for new employments during the period 1961–6 of 10·5 million non-agricultural and 3·5 million agricultural jobs. The Plan should therefore have finished with an increase in unemployment of 3 millions (17–14 millions), which would have brought the total number of unemployed up to 12 millions. But the 14 million new jobs did not materialize; this could have been foreseen during the first years of the Plan and became more evident as some of the Plan's objectives were postponed. The Fourth Plan will begin with more than 12 million unemployed, and the Draft of the Fourth Plan estimates that there will be further increases in unemployment. (23)

These figures are only approximations, but they show how serious

[1] These figures include both agricultural and non-agricultural employment.

the unemployment situation is and make it obvious that the standard of living among millions of families must have fallen with the rise in unemployment. The situation seems contradictory: India, with everything to build—factories, mines, houses—and with a large-scale development effort under way has a considerable number of its inhabitants out of work. The official point of view given by the Planning Commission is that lack of land, equipment and capital formation is to blame: this is a superficial explanation. The true causes of unemployment and underemployment are the limitations applied to the use of land and equipment by the social structure, landed interests, the private ownership of means of production, and the country's economic inequalities.[1] Immense opportunities exist for putting land and equipment to better use and, consequently, for raising the level of employment, the size of the National Income, and the standard of living. Property interests and market strangulation by profit-seekers make it impossible to mobilize all the country's working and productive forces. Capital accumulation, though weak, is not used to increase the volume of productive employment. Much of the current accumulation is wasted in speculation, moneylending, and increased ownership of property (both land and buildings), and does not give new possibilities for employment.

The present economic effort is not determined enough to combat these defects, write off the existing unemployment gap, or deal with new difficulties. This is the most obvious weakness of India's development policy, and it means that millions of Indians are bound to see their standard of living fall even further.

4. INDIVIDUAL INCOMES AND SALARIES

Agriculturists

We know little of how cultivators' and farmers' standards of living have changed. On the whole, there seems to have been very little improvement: this is borne out by the 35 per cent increase in the net value of agricultural products at fixed prices between 1950–1 and 1963–4, (24) compared with a 30 per cent rise in the numbers of this social category. Admitting that, in general, rents, debts, taxes, interest owed, and salaries paid by farmers and cultivators have remained more or less constant, their individual incomes will have risen by about 5 per cent in the last

[1] We have seen in Chapter IX that many productive capacities are not used to the full.

thirteen years; if these payments have increased, the rise would be less than 5 per cent.

This statement is of limited significance because the standards of living of the various social groups included under the heading of 'farmers and cultivators' have certainly changed in many different ways during recent years. One has only to consider the effect of agrarian laws. We have mentioned that these laws consolidate the position of some tenants, but cause millions of others to be evicted; detailed figures are not available. All that can be said is that it is mainly the incomes of the rich peasantry that have risen in the Punjab, in the State of Bombay, and in a few other regions. The upper strata of the 'middle peasantry' may also have earned higher incomes.

The most important changes for the agriculturists have been in their production relations. The two types still exist—feudal or semi-feudal (characterized by rent paid in work or in kind, or by rent in money paid by a personal producer and not by a capitalist farmer) and capitalist (characterized by the use of hired labour and by market production.) But capitalist relations have gained ground: there has been an extension of paid wages (and thus an accumulation of variable capital), an extension of techniques requiring greater productive investment (better tools and use of fertilizers on a larger scale.) The accumulation of productive capital has taken place mainly on the richer peasantry's holdings.

As we have seen, the drift towards agricultural capitalism is progressing slowly. Since fixed capital accumulation is weak, the technical changes are not to be seen on a large scale. The situation is therefore unstable and there may be some regression to pre-capitalist methods. However, there have been an increasing number of technical changes in recent years and the trend towards rural capitalism seems to have been reinforced.

Agricultural Wages

The level of agricultural wages determines the standard of living in one of the largest sections of the population. Unfortunately, statistics here also are incomplete.

According to the *A.L.E.* (1950–1), agricultural wages had kept step with the rise in the cost of living and, therefore, agricultural labourers' conditions had not deteriorated where employment was constant. A slight fall in the standard of living may have been provoked by the increased unemployment in rural areas.

This is recognized by the report on the Third Plan. It states that according to various enquiries, the rise in population has affected landless agricultural labourers in particular, and that in some regions conditions have deteriorated. (25)

Slowness in applying laws which fix ceilings to agricultural holdings, and the conditions in which they are applied, have meant that the agricultural labourers have gained almost no advantage from them. At present, the only thing that would improve their lot would be a general rise in the level of employment (which is the case in very few regions) and more grants of land. The Third Plan proclaimed that the families of 700,000 agricultural labourers should be settled on 5 million acres of land after land clearance and improvement. (26) But the States have turned a blind eye to the agricultural labourers' conditions, although they certainly could have helped. Halfway through the Third Plan, the Planning Commission reported that during the first two years of the Plan 20,000 families had been granted land and that 85,000 more would be settled during the last three years. (27) The total will be far from reaching 700,000.

Industrial Wages

According to statistics relating to the annual earnings of industrial workers who earn wages or salaries of less than 200 Rs. a month, and allowing for changes in the cost of living, the real earnings in this category were practically stable between 1950 and 1964. Average annual earnings, in fact, rose from 967 Rs. to 1,524 Rs., which is a nominal increase of about 58 per cent, but official estimates put the rise in the cost of living for these working-class families at about 59 per cent. However, this latter estimate has been widely criticized, for it does not reflect the rise in consumer prices; the actual rise in the cost of living was certainly greater. Consequently, real earnings have probably decreased.

In 1963, the average earnings of industrial workers was about 107 Rs. a month in 1958 prices. This sum is lower than the minimum demanded in the recommendations of the 15th Indian Conference on Labour, based on the average needs of a three-person family for food, clothing and rent. The minimum wage in 1958 prices should have been 125 Rs. a month. However, the minimum legal wage for some types of worker is between 50 and 60 Rs.

In general, the rise in nominal earnings has been much lower than the rise in productivity of labour. It should also be noted that the rise in

nominal wages has not corresponded to any preconceived government plan; nor has it resulted from a spontaneous decision by the government or the employers. It has come from trade union or strike actions which have often been brutally repressed before some of the demands were granted. We shall return to this point in Chapter XIII.

Development of the public sector has not directly contributed to raising the workers' standard of living. Enterprises in the public sector or attached to the administration have not paid higher wages than in the private sector. In fact, the workers' rights to organize and carry on trade union activity have often been more strictly controlled than in the private sector, and sometimes these rights are refused; nor is there greater security of employment. In administration and the public sector, security of employment is recognized for only some categories of workers who are considered as permanently employed. Moreover, as trade unionism is frowned upon, the existing rules in favour of the workers are not always respected.

The Income of the Middle Classes

Once again, lack of statistics prevents us from giving details of how the standard of living among the middle classes has changed. What was said in Part One of the years between 1950 and 1960 gives a fair idea of the situation. But three points must be added.

First, the situation of the middle classes has not improved in recent years. If anything, it has grown worse through the effect of price rises, especially in the administrative sector.

In 1960, the government decided to implement the recommendations of the Commission of Enquiry into Wages. The methods used to calculate the salaries of civil servants and government employees were simplified, and a minimum wage was admitted in fact if not in principle. The minimum was 80 Rs. at the time, which was lower than had previously been recommended.

Secondly, the commercial and industrial petty bourgeoisie gained advantages from the expansion of urban demand and because sales prices and productivity of labour rose faster than wages.

Thirdly, the numbers of small industrial, handicraft and commercial enterprises have increased, as have their incomes. Thus the social and economic basis of Indian capitalism has been enlarged and strengthened.

There has been no lack of contradictions. The traditional craftsman, the smallest tradesmen, and even a part of the petty bourgeoisie have

suffered from the development of big enterprises and from the increased competition that has resulted from this. Although these contradictions have not had any particularly serious consequences, the gap between the traditional society's standard of living and that of the new modern sector has widened.

5. BOURGEOIS AND CAPITALIST INCOMES

The few indications which are available confirm what has already been stated about the Indian bourgeoisie's economic situation, namely, that it has grown much stronger since the start of the Five-Year Plans. The indices suggest that while the nominal earnings of individual workers increased by 35 to 40 per cent and their salaries by about 70 per cent (29), most industrial profits increased more than threefold (30), i.e. at an average yearly rate of nearly 12·5 per cent. The *Annual Survey of Industries in India* calculates that this rate of growth has declined somewhat in recent years. (31)

Thus Indian industrial capitalism has gained a good deal of ground, especially as foreign capital's profits seem to have remained more or less constant.

There is little information about property rent, commercial profits and income from moneylending; these unearned incomes must also have risen (32). But the rate of economic development and particularly the growing lag in agricultural production may have meant that property rent and income from moneylending may have risen more slowly than have industrial and commercial profits.

On the whole, the increase in the National Income has benefited the richer classes, and one can say that social inequalities have become more apparent. (33)

6. THE GROWTH OF THE U-SECTOR

What has been said above suggests that the upper-class sector has been in rapid expansion during the Plans. Attention was focused on this question in 1960 by a number of reports, and particularly by an article of B. V. Krishna Murti's, entitled 'The Plan and the U-Sector'. (34) The author demonstrates how development expenditure has helped increase the salaries and profits of the upper classes. He also notes the increase of luxury spending on cars, air-conditioning, refrigerators, etc. This type of

spending uses a good deal of material and human resources which should have been used for investment purposes. The large expansion of luxury building is also of critical importance, for it rivals factory construction and ties up a large part of the economic surplus which could have been used to develop productive forces. This article provoked a discussion which revealed some interesting facts about the growth of the U-Sector. (35)

Other authors also emphasize the rapid expansion of building construction and of speculation due to the U-Sector's development. Like Krishna Murti, they note that luxury spending is in complete contradiction to the appeal to wage-earners and workers for 'austerity'. (36)

J. D. Sethi points out another consequence: the growing frustration and dissatisfaction among the Indian intelligentsia. Although these feelings have not yet developed into open hostility to the present social order, they may well do so before long. This brings us to the question of how the population has reacted to recent developments, and how the political situation has changed in the last few years.

NOTES TO CHAPTER XII

(1) This percentage is obtained by comparing the average National Income *per capita* for 1948–9 and 1949–50, 250 Rs., with the average for 1962–3 and 1963–4, 297 Rs. (these two figures are expressed in 1948–9 prices).

The official figures of the National Income for a few recent years are as follows:

EVOLUTION OF NATIONAL INCOME
(in thousand million Rs.)

	At Current Prices	In 1948–49 Prices
1948–49	86·5	86·5
1950–51	95·3	88·5
1955–56	99·8	104·8
1960–61	141·4	127·3
1962–63	154·0	133·1
1963–64	172·1	139·7
1964–65	200·1	150·5
1965–66	—	144·9

(2) This percentage of 7 to 8 per cent is obtained as follows:

(i) For 1948–9 and 1949–50, the proportion of net deductions fro the National Income *per capita* (estimated at 250 Rs. in 1948–9 pric is 11 per cent, giving an estimated *per capita* consumption of 222 Rs

(ii) For 1950–1, the proportion of net deductions from the Nation Income *per capita* (estimated at 247·5 Rs. at the same prices) w 12·7 per cent, giving an estimated consumption *per capita* of 235 Rs., 1948–9 prices.

(iii) For 1963–4, the proportion of net deductions is estimated 21·8 per cent from an estimated National Income *per capita* of 300 Rs giving a *per capita* consumption of 235 Rs. at 1948–9 prices.

The 11 per cent deduction for 1948–9 and 1949–50 corresponds to personal estimate made from the available statistics. The relativ percentages for 1950–1 and 1963–4 are those given by Professor K. N Raj in two lectures given on 28th and 29th September 1964 to th Council for World Affairs. On the other hand, however, the figures fo consumption per person set out here do not agree with those given by K. N. Raj, for a reason which is not yet clear for the first of the two years and by reason of a lower evaluation of the National Income as far as the second of the two years is concerned.

(3) Calculated per adult, the daily ration is a little higher. Towards 1956–7, it is 2,200 calories per day (*F.E.R.*, p. 40), against a standard minimum of 3,000 recommended by the nutrition experts. In fact, at this time a large part of the population only consumed 1,200 to 1,500 calories per adult per day (*ibid.*). After some small improvement in 1961 and 1962, the situation has again deteriorated as shown by the figures relating to *per capita* net availability of cereals (13·2 oz. in 1958 and 12·5 oz. in 1966) and of pulses (2·5 oz. and 1·7 oz. respectively).

(4) Cf. *T.F.Y.P.*, p. 625.

(5) See on these different points the statistics published in *E.W.* August 7, 1965, pp. 1249–50.

(6) The preceding details are taken from an inquiry made at Sholapur by P. Pethe Vasant, 'Low Standard of Primary Education', in *E.W.*, October 1, 1960 (pp. 1478–9).

(7) A great part of the details in this paragraph are taken from Professor P. C. Mahalanobis's article 'A Review of Recent Developments in the Organization of Science in India', written at the end of 1959. This article recalls, and rightly so, the long Indian tradition in the scientific domain, especially in mathematics, astronomy, chemistry, medicine,

and in certain branches of biology, but it indicates also that this tradition was waning little by little around the end of the twelfth century. There was then a period of general stagnation, except for some research in chemistry and medicine during the Muslim period in India.

(8) On problems of education in general, and of university education in particular, as well as on the problems of scientific research, the article quoted previously by Professor P. C. Mahalanobis is worth consulting, in addition to V. Kondratiev's article on the preparation of Indian specialists which appeared in the Soviet review *Mirovaia Ekonomika i Miejdou narodni Otnochenia*, of August 1958, pp. 107 *et seq.* Also worth consulting are the two addresses by Professor P. C. Mahalanobis to the National Institute of Sciences of India in January 1958 and January 1959. Lastly, consult the 'Education' chapter in the reports of the different Five-Year Plans.

(9) The preceding figures are taken from an article by B. V. Sha, 'Inequality of Educational Opportunities', *E.W.*, August 20, 1960, pp. 1283 *et seq.*

(10) A study which appeared in the *Modern Review*, Calcutta, of November 1956, pp. 369 *et seq.*, 'Housing in India', by C. B. Mamoria, indicates that, according to studies carried out in India, 90 per cent of the rural Indian dwellings could be considered as quite unsuitable for human needs.

(11) Cf. *Labour Investigation Committee, Main Report*, Gov. of India, 1946, and M. S. H. Mody's 'A Study of City Development', an unpublished thesis, Bombay, 1952, quoted from C. A. Myers' *Industrial Relations*, pp. 74–75.

(12) Cf. *Report on the Survey into the Economic Conditions of Middle Class Families in Bombay City*, 'I.S.I.', Bombay Branch, Bombay, 1950; this inquiry will be designated by the abbreviation 'S.E.C.'

(13) *S.E.C.*, pp. 44–45.

(14) Cf. *T.F.Y.P.*, p. 682.

(15) *Ibid.*

(16) Cf. particularly *M.T.A.*, p. 168.

(17) Cf. *D.O.T.F.Y.P.*, p. 120.

(18) *E.W.*, February 4, 1951, p. 117.

(19) Cf. *Agricultural Labour Inquiry, Report on Intensive Survey of Agricultural Labour*, this work will be referred to as 'A.L.E.-I.S.'

(20) The figures of the *A.L.E.-I.S.* are quoted from the preceding report indicated, p. 28. The figures of the inquiry of the 'National

Sample Survey' quoted above are taken from *N.S.S.*-14, pp. 73 and 81.

(21) Cf. *R.F.F.Y.P.*, p. 110.

(22) This was recognized by the *M.T.A.*, who declared that 'employment has been somewhat below expectations', and adds 'it appears that additional employment generated during the Third Plan period is likely to fall somewhat short of the original [i.e. 'target'] 14 millions' (p. 53).

(23) According to this draft, the number of jobs should rise by 20 million (also a very generous estimate) while the working force would increase by 23 million, and therefore there would be a 3 million increase in the unemployed and a striking unemployment of 15 million people at the end of this Five Year period (cf. *M.F.F.Y.P.*, p. 24).

(24) This percentage is calculated by comparing the 59 thousand million Rs. of net agricultural production and auxiliary activities in 1963–4, with the 43·4 thousand million Rs. accruing from these same activities in 1950–1 (the two figures are expressed in 1958–9 prices). (Cf. *E.M.I.*, April 1965, p. 4.)

(25) Cf. *T.F.Y.P.*, pp. 374–5.

(26) *Ibid.*, p. 378.

(27) *M.T.A.*, p. 97.

(28) Cf. *E.W.*, August 1960.

(29) These very approximate estimates refer to the period 1950–1 to 1960–1. They are obtained by multiplying the average annual earnings of industrial workers (estimated approximately at 1,000 Rs. in 1950–1, and at 1,400 Rs. in 1960–1)* by the employment of workers in the manufacturing industries. This last is itself estimated approximately at 3 million for the first of the two years, and at 3·8 million for the second.† Thus one obtains two amounts of workers' wage bills estimated at 3·1 thousand million Rs. and 5·3 thousand million Rs. respectively.

(30) Gross industrial profits can be measured approximatelyby deducting from the net value of industrial production in 1950–1 (5·5 thousand million Rs.) and in 1960–1 (13·2 thousand million Rs.) the workers' salaries estimated above. This leaves a balance of 'gross profits' of 2·4 thousand million Rs. and of 7·9 thousand million Rs. for each of the two years.

* From the series *Earnings of Factory Labour*, of the Ministry of Labour (cf. particularly *M.A.S.*, April 1965, p. 71).

† This is an estimate which depends for 1960–1 on the Ministry of Labour's *Factory Employment* series, on the hypothesis (optimistic from the industrial employment point of view) that the growth of employment, which this series allows one to measure more or less for the period 1956–60, began in 1950–1 and continued at a constant rate.

One of the weaknesses of this method of estimation is that it does not take into account the employees' salaries. This is perhaps somewhat compensated for by the fact that the employment measured is without doubt a little bigger than that corresponding to the sum for 'big industry', as it figures in the National Income statistics.

In any case the approximation seems credible if one knows that the capital invested in big industry has itself multiplied by 3 in the course of the period considered (cf. the study which appeared in the *R.B.I.B.* of January 1963).

(31) This survey does not cover all modern industrial production. However note that the ratios calculable for 1960 are close to those obtained from the calculations in the preceding note.

(i) Relation of gross profit (estimated as the difference between the net value added and the workers' salaries) to the workers' wage bill, 1·37 (the results of the above calculations give 1·5 in 1960–1).

(ii) The rate of gross profits, i.e. relation of gross profits to productive capital=23 per cent from the survey of 1960. If the gross profits calculated previously be applied to the total capital value of big industry in 1960–1 (cf. *R.B.I.B.*, January 1963), a gross rate of 20 per cent results.

'The 'Annual Survey of Industries' has been made since 1959. It replaces the 'Census' and the 'Sample Survey of Manufacturing Industries'.

More detailed inquiries made by the Reserve Bank of India on the joint-stock companies confirm the above data, and the slackening in the growth of profits in 1961–2. During 1956–60, the value of the production of these companies grew by an average of 12·1 per cent per year, in 1960 it grew by 15·1 per cent, and in 1961 by 8·1 per cent. (Cf. *India 1964*, pp. 254 *et seq.*)

(32) The large-scale exploitation of the poor and landless peasants is confirmed also by many regional inquiries, particularly by that made in the Tanjore district by Mr Ladejinky. This report shows that in fact the insecurity of tenures increase with time (this is a result of the 'threats', never followed through, of land reform) and that rents can reach 60 to 65 per cent of gross products. It is significant that the Planning Commission held back publication of this report for more than two years, only authorizing it in 1965.

(33) It must be added that the Indian tax system, far from contribu-ting to a reduction of unequal income distribution, aggravates it even more. From this point of view, the most characteristic fact is the important and rapid growth of indirect taxation on articles for mass consumption. Equally significant are the various measures seeking to 'encourage' the capitalists to invest. These facts have been dealt with in Chapter X above.

(34) *E.W.*, September 24, 1960.

(35) See particularly the articles in the *Economic Weekly* of November 5, 1960 called 'The Genesis of the U-Sector', signed 'N.S.' and another article in the same review, of November 12, 1960.

(36) Cf. *E.W.*, November 12, 1960.

XIII

POLITICS AND SOCIAL FERMENT

WHAT effect had the changes in India's social and economic structures on the country's social and political affairs? The question is complicated by the regional and social diversities that exist in the sub-continent. We shall be forced to choose some major points of interest and to concentrate on the trade union and strike movements in particular, for they show how active is India's working class. We shall also see how the major political parties have gained or lost credit, which is visible mainly from election results. Finally, we shall try to judge how things have changed within the main parties, and within the Congress Party in particular.

I. TRADE UNIONISM AND STRIKES

Indian trade unionism was already well on the move before Independence and had won some important battles in the field of social legislation.

The year 1938 saw the restoration of trade union unity and, apart from a few minor breaks during the war years, its unity was preserved until 1947.

Let us now see how trade unionism has developed since Independence in the various branches of industry.

The Strength of Trade Unionism

Statistics concerning the number of union members are not very accurate, but there are enough data for us to give some approximations. Official estimates put the total strength of registered unions (those sending in regular reports) in 1949–50 at 2 million members; the number had increased to 3·9 million members by 1959–60. This is a rise of about 95 per cent over 10 years. In 1938–9, there were only about 400,000 trade union members.

These figures probably underestimate the strength of the trade union movement. In the first place, they correspond to the numbers declared by registered central union staffs; in fact, by no means are all the unions

registered. According to figures put out by the central union organizations themselves, they had 3,340,000 members in 1953, whereas official statistics give only 1,200,000 declared members in that year. This is a ratio of almost 1 to 3. Whatever the exact numbers may be, the Indian working class is obviously highly organized as far as trade unionism is concerned.

The unions in the metallurgical, food and chemical industries are the best organized, followed by those of the textile and coal-mining industries. Workers on plantations, in banks and postal services, and on the railways also have strong union representation. It is interesting to note that employees in banks and insurance companies have fairly strong unions. (1)

However, the instability of local organizations and the disagreements among central unions after 1947 have somewhat weakened the movement as a whole.

The Divergent Tendencies in Trade Unionism

After 1946, the Congress Party had increasing difficulty in controlling the A.I.T.U.C., and gradually came to admit that it would have to break with the trade union movement. After September, 1946, the Congress Party was acting as the Interim Government and, wanting to influence trade union activities, was then even more strongly in favour of a split.

At the Calcutta meeting of the A.I.T.U.C. in February 1947, the trade union leaders allied to the Congress Party and those allied to the right-wing socialists put forward motions in favour of the laws drawn up by the Congress Party's Provincial Governments. These laws proposed that strikes be forbidden and that arbitration be made compulsory. The motions were defeated by a large majority of the delegates.

Three months later, in May 1947, the trade union leaders allied to the Congress Party decided to leave the A.I.T.U.C. and found a new organization—the I.N.T.U.C. (Indian National Trade Union Congress). Its first Congress was held under the chairmanship of Acharya Kriplalani, who was then Chairman of the Congress Party. The I.N.T.U.C. openly showed its affiliation to the Congress Party,[1] whereas the A.I.T.U.C. is officially a non-political organization belonging to the W.F.T.U. which, at the time, grouped members of the French C.G.T., the British T.U.C., the American C.I.O., Soviet unions, etc. The unions affiliated to the I.N.T.U.C. are asked to support the Congress Party at elections, although this is not made a condition of their adherence to the movement. Some unions left the I.N.T.U.C. because of this request (notably the Bengal branch).

[1] The Conference at which the foundation of the I.N.T.U.C. was discussed was called for by the A.I.C.C. and by the *Hindusthan Mazdoor Savak Sangh* (supported by the leaders of the Ahmedabad Textile Labour Association). In 1948, the Indian Government declared the I.N.T.U.C. the more representative organization.

The movement towards a split, which began with the formation of the I.N.T.U.C., continued with the withdrawal from the A.I.T.U.C. of unions allied to the Socialist Party. They could not hope to make their voices heard in the I.N.T.U.C. and so formed a new Congress in December 1948—the *Hind Mazdoor Sabha* (H.M.S.). It was openly connected with the Socialist Party, just as the British unions admit to connections with the Labour Party.

When there was a split in the World Federation of Trade Unions, the I.N.T.U.C. and the H.M.S. joined the newly formed International Confederation of Free Trade Unions, while the A.I.T.U.C. remained with the W.F.T.U.

Thus, the trade union movement broke up just when India was obtaining her Independence. There are now four central organizations, plus a few minor or regional movements.

The following table shows how many members belonged to the four main movements in certain years since 1949.

MEMBERSHIP OF THE CENTRAL TRADE UNION ORGANIZATIONS

	1949 —(estimated)—	1953	1953 ——(declared)——	1958	1960
I.N.T.U.C.	1,023,000	1,347,000	753,000	910,000	1,053,000
A.I.T.U.C.	741,000	675,000	172,000	538,000	509,000
H.M.S.	679,000	804,000	208,000	193,000	286,000
U.T.U.C. *	332,000	515,000	85,000	82,000	110,000
Total	2,775,000	3,341,000	1,218,000	1,723,000	1,958,000

* United Trade Union Congress.

Some industrial unions, although organized on a national scale, do not actually belong to the four big organizations.

The I.N.T.U.C. has been and is the most widely supported in governmental and management circles. Owners and managers think that the

Congress Party needs trade union support if it is to keep in power. To give an example, Sir Biren Mookerjee, who is President of the Indian Iron and Steel Company, declared at a stockholders' meeting that time, tradition and sentiment have made the constitution of the Indian National Trade Union Congress irrevocable, and that its existence should be accepted with good grace by all those interested in keeping the Congress in power. He regretted that the leaders of the I.N.T.U.C. should at times be forced to agree with the strike action demanded by its members, adding that it is consequently essential that the Government should do its duty by instilling a sense of responsibility into the I.N.T.U.C. leaders and by restraining their ambitions. (2)

The Indian trade union movement has developed with astonishing speed. One reason for this is the high concentration of Indian industry; other reasons are linked to the recent industrial expansion and to the increased stability of employment.

Various surveys have shown that trade unionism makes little headway in the small enterprises. This is not an unusual situation, but it is to be found more often in India than elsewhere because of the relations between owner and worker. In small enterprises, the employees may consider the owner with a feeling of gratitude, for he is personally responsible for giving his employees work. When employment is unstable a feeling of solidarity may link the workers to the owners; the former's work depends on how many orders the latter can obtain. The contrary is true when an enterprise is developing rapidly and when the market is either stable or expanding (which has recently been the case in many towns). The process is not, of course, either simple or uniform. (3)

Whatever the reasons for the quick expansion of trade unionism, it means that class consciousness and class solidarity have increased among the Indian proletariat, all the more since trade unionism had to face violent opposition from management, (4) despite the fact that the I.N.T.U.C. organizations have been tolerated.

What form of action based on the workers' solidarity has been taken? Most unions are industrial unions which include all the trades within an enterprise; professional unions exist, but mainly for independent occupations (taxi-drivers' unions, lorry-drivers' unions, etc.) and for occupations which depend on a particular educational level (the different grades of railway and postal workers, for example, have each their own union). Trade unionism has gone much further than the individual unit, with the creation of powerful industrial federations. They are sometimes at State level, sometimes on a national scale. Strikes and demonstrations have shown that there is a strong solidarity among workers. The existence of Congresses shows that workers' solidarity goes further than the single industry, and enables several unions to act together. However, the split in the trade union movement has limited the workers' collective strength.

In any case, the communal action and communal solidarity of India's working class tends to break down language and caste barriers, and is one of the most remarkable and most important developments in modern India. Despite its extremely small financial resources, the trade union movement has won a strong position for itself.

In 1959–60, the current receipts of workers' unions totalled about 30 million Rs.; this means an average of 7·5 Rs. per affiliated worker. That is certainly not enough to defray the costs of rent, correspondence material, travelling, etc. which the unions have to bear. In fact, the trade union leaders show great devotion to their cause in sacrificing much of their time for a minimal salary. Many of them have to manage several unions in order to make a living, subscriptions being too low for a union to employ a full-time staff. The organizers who have legal training usually supplement their trade union activities by legal practice. (5)

The finances of the central organizations are not much healthier. Most of the industrial Congresses and Federations have only a few thousand rupees a year with which to pay staff salaries and travelling expenses. Only the I.N.T.U.C. is a little better off, for its subscriptions are higher and it receives donations from outside the movement. It has a well-equipped headquarters and puts out a number of regular publications. But in India, no doubt less than elsewhere, a trade union movement's finances are not the gauge of its social influence.

Strike Action

One way of estimating the importance of strike action is to detail the number of strikes which have occurred and the number of men who took part in them. This method may not be entirely satisfactory, but it will give us some idea of the volume of strike action.

There were about 400 strikes a year just after the second world war. They were observed by 400,000 to 650,000 workers and meant a loss of 5 to 9 million working days. (6) The number of strikes and of participants increased after 1940. In 1946–9, figures were the highest ever

(except for those of 1928): nearly 1,650 strikes in 1946, more than 1,800 in 1947; nearly 2 million strikers in 1946, and more than 1,840,000 in 1947; 12,700,000 and 16,600,000 working days lost in the same two years.

The high strike rate continued in 1949 and in 1950, but fell back between 1951 and 1954. The rate went up again between 1956 and 1958 with the new industrial effort, but seemed to level off in 1959 at a slightly lower figure than in the preceding years. After 1960, the rate went up once again.

STRIKE ACTION BETWEEN 1949 AND 1963

	Number of workers on strike	Number of working days lost
1949	685,000	6,600,000
1950	720,000	12,800,000
1953	467,000	3,380,000
1954	477,000	3,370,000
1957	889,000	6,430,000
1958	929,000	7,800,000
1960	993,000	4,193,000
1962	705,000	6,120,000
1963	458,000	2,079,000

2. POLITICAL DEVELOPMENTS

Lack of space prevents us from analysing Indian political affairs in each State: we shall study the main political changes in the country as a whole, taking the Central Parliament election results as a fair indication of how political forces have been at work.[1]

[1] We must leave aside foreign politics, which would give rise to some rather lengthy discussions. But the following points should be borne in mind. Between 1947 and 1953–4, India's foreign policy was essentially pro-Western. After 1954 there was a move towards neutralism, marked by better relations with China. This was the period of the 'Five Principles'. The neutralist policy was urged on the Government by the Indian bourgeoisie, who saw more advantage in it than in a strongly pro-Western attitude. A swing away from neutralism started in 1958–9 (although India was represented at the 1961 Belgrade Conference of 'non-committed' countries). The swing back seems to have been linked with India's failure to become self-supporting and to develop her agriculture, with the resulting increase in the foreign debt and in aid from America. The present move towards a stronger pro-Western policy has been impelled by the right wing of the Congress Party, which has gained in strength: it is also a result of the build-up on the Chinese frontier. Some commentators deny that the Congress Party's right wing has gained strength on the grounds that the left wing has been strong enough to work out an election programme and to propose motions at the Party assemblies (although the motions were defeated). This is obviously the left wing's reply to the growing strength of the right. In fact, the left wing's proposals were merely re-statements of the Congress Party's traditional positions, which goes to show that they were merely defensive measures.

The General Elections

If we examine the general election results for the *Lok Sabha*, the following observations can be made:

1. The proportion of votes has increased: 45·7 per cent of the electorate voted in 1951–2, 47·7 per cent in 1957, 55·4 per cent in 1962 and more than 61 per cent in 1967.[1]

2. The number of votes obtained by the Congress Party has shown few fluctuations, up to 1962, between 45 and 47 per cent of the votes cast. Congress gained 362 seats in the first Assembly, 371 in the second and 357 at the end of 1962 out of about 500 elected members. (7) At the 1961 General Elections the Congress Party obtained less than 39 per cent of the votes and gained about 280 seats. (8)

3. The Communist Party which had obtained only 3·3 per cent of the votes in 1951–2 (or, according to its own claims, 5·2 per cent) obtained 10·6 per cent in 1957 and roughly the same percentage in 1962. In 1967, the two communist parties and some small marxist organizations obtained about 10 per cent of the votes. The C.P.I. (right) gained 23 seats and the C.P.I. (left) 19.

4. In 1951–2, the socialists, i.e. mainly the P.S.P., were the second strongest political group according to the numbers of votes obtained (they had more than 16 per cent.) Their influence had lessened by 1957, when they obtained only 11 per cent of the votes. However, they actually gained more seats in the 1957 elections than in the 1951–2 elections—25 as against 21. In 1962, the Socialist Party won only 12 seats. Seven candidates of Socialist tendencies were elected as Independents. Most commentators agree that the Socialist Party lost ground because the Congress Party adopted an election programme similar to theirs. In 1967, the two socialist parties (S.S.P. and P.S.P.) obtained about 8 per cent of the votes and gained 38 seats.

5. The combined communalist or feudal parties obtained nearly 9 per cent of the votes at the 1951–2 elections and won 23 seats in the

[1] The number of people voting varies considerably from State to State. We are forced to pass over the reasons for such differences.

Lok Sabha. There was little change in 1957, when these parties obtained 10 per cent of the votes and won 24 seats. The main party in this group, the Jan Sangh, has progressed. It controlled 3 seats in 1952, 4 seats in 1957, 13 seats in 1962, and in 1967 won 35 seats obtaining 8·5 per cent of the votes.

The political force of these parties should not be underestimated. They play on the people's chauvinistic sentiments, which is a tactic used at times by both Congress and socialist leaders.

6. The last political group of importance and the most recently formed is the Swatantra Party. Formed only in 1957, it obtained about 5 per cent of the votes in the 1962 elections. On the 31st January 1964 its Parliamentary force consisted of 28 members, in 1967 it obtained about 7 per cent of the votes and gained 45 seats. It has become therefore India's second largest party in the Parliament. It is still far from challenging the Congress Party.

Most of its support appears to lie among the bourgeoisie and the landowners.

To sum up, the results of the four General Elections show that the Congress Party's power has been declining as its terms of office continue; that the C.P.I. has maintained its position; that the socialist parties have lost ground; and that the right-wing parties outside Congress—notably the Swatantra and the Jan Sangh—have progressed.

Congress has, nevertheless, maintained its dominant position in Indian political life, often by contracting alliances with the right-wing parties.

We shall now see how the parties have changed internally.

Crisis within the P.S.P.

The P.S.P. seemed first to be gaining considerable influence. But since 1957 there has been an internal crisis. Dr Ram Manohar Lohia and Acharya Kriplalani, both important men in the P.S.P., have left the party. The crisis arose out of the socialist parties' failure at the 1957 elections. It was also provoked, or so it would appear, by the very nature of the Indian socialist parties, which depend on the middle class more than on the proletariat and on the peasantry. There is no relatively well-off working class for them to count on, as do the European social-democratic parties.

The leaders of India's socialist movement come from the middle classes of the bourgeoisie. Many of them have been educated in Europe and have been influenced by European socialism. Their ideas are not centred around the people's struggle to gain better living conditions. Their positions are ethical or idealist rather than truly political, which does not stop them from using the classical methods of political manoeuvre.

The Indian socialist parties have shown less inclination towards anti-Imperialism than the Congress or communist parties. They were prepared to collaborate with the big capitalist powers and to favour foreign private investment even at a time when the Congress Party was firmly opposed to such a policy (in principle at least).

The recent crisis and its continuance can be explained by the socialist parties' lack of a true social basis and by the contradiction between their conceptions and the hopes of the Indian bourgeoisie as well as those of the proletariat and the peasantry. It is probable that these parties will continue to survive, but their power will not be great. This fact, added to the weakness of the 'socialist' ideology, no doubt explains why some party members, even some party leaders, have joined the more powerful Swatantra or Congress Parties.

Discord within the Congress Party

The Congress Party's development is obviously the main point of political interest. It has lost prestige after many years in power, which was inevitable after a time in a country where private interests are numerous, powerful and active.

The population has become increasingly sceptical of the Congress Party's promises, since it has not carried out most of its election promises. The growth of corruption and nepotism among the Congress leaders and the State Governments has also lowered the Party's prestige. This is the main accusation levelled against the Party throughout India. Politically it is of little importance whether the accusations are justified or not; what matters is whether the people think they are, and that is certainly the case today. (11) The consequent hostility towards Congress is only partly offset by the respect and awe normally felt for those in power.[1]

The Congress Party's long tenure of office has certainly been counterbalanced by a gradual loss of prestige. This has also been caused

[1] It has often been said that the electors, and especially the rural electors, are apprehensive at the idea of voting against the party in power. Villagers will vote against the government only when there is a strong pressure to give them some courage. To vote against the government is felt to be a gesture of ingratitude and lack of respect. Voters also fear that the ballot is not really secret.

by a partial renaissance of local, communalist and 'feudal' tendencies. Language problems have come to the fore again, particularly in the South, in the Punjab and in Assam. Everywhere there are signs that the central authorities are no longer able to control either the Congress organizations in the States or the Congress Governments.

There have been a greater number of disputes within the party in recent years. Factions have been violently opposed in Andhra, Orissa, Mysore and the Uttar Pradesh. Often Congress representatives in the State Congress have been in disagreement with the provincial Congress committees. But this is not the only form of dispute within the party.

There are conflicting tendencies at the head of the Congress Party. Until President Nehru's death on May 27, 1964, these conflicts were less apparent than the discord in the States, but they had been developing since 1956 in particular. Often, the decisions the Prime Minister managed to get adopted at Party Congresses were not put into action. There were also disagreements on many occasions between Nehru's ideas and those of the majority of the All-India Congress Committee. Differences of opinion have been evident when it has been necessary to choose members of the party's main organizing body, the Working Committee.

The cause of the stress was that the Congress Party moved towards more openly conservative policies, whereas Pandit Nehru stood for a 'socialist' style of politics. Nehru was the only national leader in the Congress Party who had a great influence over the Indian people through the respect felt for his career, personality, intellectual powers, exceptional gifts as an orator and reputation as a left-wing politician. The Congress Party members who disagreed with him had to put up with him. In any case, it suited them to leave him in the forefront and to gain control behind the scenes.

Immediately after Nehru's death, the disagreements within the Congress Party came into the open. The State leaders, and particularly the Chief Ministers, showed signs of restlessness and since 1964 they have often managed to get their own way. They have been able to do so because of the influence they exercise in their own territories. The growing force of regionalization has widened the rifts in the Congress Party. It has also forced the regional leaders to collaborate more closely with, and to defer to, the local owning classes.

It is hardly surprising that several groups of personalities have formed

within the Congress Party since Nehru's death, and that they are fighting for power. The triumph of the group represented by the late Prime Minister, Lal Bahadur Shastri, and by the President of Congress, Kamaraj (12) was the result of a compromise and not of an outright victory of any particular line of thought: the same applies to the choice of Mrs Indira Gandhi as Prime Minister. This is because no single line of action seems possible in the face of disputes within the party and foreign economic pressure outside it, owing to India's absolute reliance on foreign financial assistance.

Thus, the situation within the Congress Party is one of latent tension. There may not be an open crisis in the near future. Despite internal disagreements (mainly through pressure from the State or from personal interests), there is still the binding influence of the Indian bourgeoisie. It needs a political apparatus such as the Congress Party, and it wants the party intact.

The years since Independence have shown that the Congress Party has remained the only big party supported by the Indian bourgeoisie. Its economic policy, its agrarian reforms and its methods of taxation have in fact favoured the owner classes. Of course, like most parties of this type, it has never openly admitted to such a policy, but after more than fifteen years in power the Congress Party has amply revealed which part of the population it serves first.

However, there are many disagreements among the different owning classes in India (the industrial bourgeoisie, the big financial groups, the commercial bourgeoisie, the landowners, and the rural and urban petty bourgeoisie). The Congress Party's great success has been in containing the different factions of the bourgeoisie and preventing open conflict between them. The Congress, which managed to unite the bourgeoisie in the struggle for Independence, has since then succeeded in preserving that unity by social and economic policies that have satisfied the majority of the bourgeoisie, while being of particular advantage to big capital.

Naturally enough, the various sections and interests of the bourgeoisie are represented within the Congress Party. This is precisely why there have been conflicts of opinion inside the Party. These conflicts have sometimes taken the form of opposing personalities and sometimes of opposing ideas. A large-scale study of the Congress Party's history would be needed to describe the various interests and evalute their respective influences on party policy. But it is important to understand

that many apparently political trends are no more than the expression of the conflicting interests mentioned above.

The Congress Party remains united for the moment. Its unity may well be challenged before long by the new Swatantra Party, which is likely to become another party of the Indian bourgeoisie and of the big bourgeoisie in particular.

The Swatantra Party

The Swatantra Party was formed early in August 1959 by C. Rajagopalachari. He had formerly been one of the leading members of the Congress Party. It is a typically conservative party, against agrarian reform and against the idea of co-operatives. Its policy of agricultural development is the increase of crops through the development of credit. Its industrial policy is to make sure that the public sector becomes only a complement of the private sector, and to develop in the public sector only those industries which are not profitable enough to interest the private sector. It demands a reduction of income tax, an increase in foreign private investments, and closer collaboration between Indian and foreign capital.

Professor Chenoi, one of the few Indian economists who have been openly hostile to the Five-Year Plans, takes an active part in the management of the Swatantra Party.

The new party's main supporters are the Forum of Free Enterprise and the Federation of Indian Agriculturists. The Swatantra Party's programme undoubtedly expresses the views of some representatives of monopoly capital who consider that the Indian government is going too far in its policy of State capitalism and that the movement must be stopped (or even reversed), leaving all the initiative possible to private capital. But for the moment big capital, however much it may be in favour of the Swatantra Party, has not abandoned the Congress Party. It seems probable that the Swatantra Party has been supported because it offers a possible alternative, and because it can be used to put pressure on the Congress Party if it were inclined to forsake the interests of big capital for those of other owner classes.

It is very difficult to judge how the Swatantra Party will fare in the future. Everything depends on how the Congress Party reacts and how much support the Swatantra Party wins. There are many indications that the appearance of the Swatantra Party has caused a strengthening of the Congress Party's right wing.

It is also difficult to say which are the social classes amongst whom the Swatantra Party has found support. First it relied mainly on the sections of the urban petty bourgeoisie who were discontented with the new forms of taxation, and on some rural upper classes who disagreed with the present economic policy. Later, it found support among the new layers of the Indian bourgeoisie.

The Congress Party has, then, this new threat to its right wing. Until now the danger has not been great, but the pressure of the existing conservative or reactionary parties (notably the Jan Sangh) has been greatly increased.

The Indian Communist Party

The other danger threatening Congress from the left is the Communist Party. We have attempted to estimate how its influence has spread or, at least, to gauge its influence from the results of the first four General Elections after Independence. Contrary to what has often been said, its influence measured in this way has not suffered from the recent frontier conflicts between India and China. However, the Indian government has seized this opportunity to use severe measures against the communist movement. It has in so doing widened the rift which has been apparent in the movement for several years now. This point deserves close attention.

The frontier dispute between India and China and in particular the ideological conflict between the Russian and the Chinese Communist Parties have helped to intensify the disagreements with the Indian Communist Party. The result has been a definite split between two trends (which, however, do not represent those of the Russian and Chinese Communist Parties).

Until recently, the relative strength of the centre (which controlled the secretary generalship of the party until the death of Ghosh) kept the two opposing wings united. There had been many occasions when they were opposed, and that long before the international conflict. In 1958, in particular, the left wing strongly criticized the party line, which might be defined as a policy of 'critical support' for the Congress Party.

The right wing, which has now become independent, turned to the idea of a National Democratic Front. It hoped to attract the masses away from the Congress Party, and also some members, even some leaders, of the Congress Party itself. A programme for the immediate future was worked out with these aims in view; it reads like a left-wing

version of the Congress Party's programme. It advocates measures to satisfy various desires of the working class, working peasantry, middle classes and national bourgeoisie; it does not demand rapid or far-reaching social changes. The C.P.I., like the Congress Party, gives priority in this programme to the development of basic and heavy industry, the necessity of protecting domestic industries against foreign competition, the importance of promoting co-operative development by increasing the activity of credit and marketing co-operatives and by providing more machines and agricultural implements.

Some shift towards the left can be seen in this programme's claims for the immediate nationalization of banks, insurance companies, coal-mines and metallurgical industries, and the aluminium, manganese, copper and gold mines. The party also demands nationalization of the jute factories and of the plantations controlled by British capital. It demands that a ceiling should be placed on profits and that all profits exceeding the statutory figure should be carried over into a compulsory loan. Various taxation measures are proposed (for example, higher taxes on company profits and a tax on personal fortunes and on income from capital) and an increase in the progressive income tax scales.

Immediate agrarian reform is held to be essential so that the peasantry's rents and interest on debts may be decreased, fair prices set for agricultural produce, and a minimum wage laid down for agricultural labourers. The programme demands an immediate increase of 25 per cent in all workers' wages. On the question of political institutions and political liberty the programme suggests proportional representation at all elections and greater powers for local authorities such as village *panchayats* and municipal corporations.

The aim of this programme is to better conditions among the less favoured social classes and to attract members of the middle classes and the petty bourgeoisie. At the same time, it leaves the way open for an agreement between the C.P.I. and some of the Congress Party leaders.

Long before the international conflict, the left wing of the C.P.I. had taxed the right wing with rejecting the idea of a 'people's democracy' which the C.P.I. had adopted immediately after Independence. The right wing, called 'Revisionist' by the left, was accused of rejecting the 'people's democracy' because they did not agree with the idea of an eventual working-class State and working-class government. The left attacked the right-wing idea that there could be a National Democratic

Front in which the Communist Party would collaborate with a section of the Congress Party representing the anti-monopoly national bourgeoisie and willing to share power with the working classes.

In an article entitled 'Our Mission', which appeared in the first issue of *The People's Democracy*,[1] Jyot Basu writes:

> 'Thus, it is not a question of individuals or groups of Congressmen joining the democratic front, it is their objective to work for some sort of a Coalition Government with a section of the Congress Party, and in this combine the working masses to begin with will be junior partners. They are afraid to visualize working-class leadership lest the national bourgeoisie is frightened.' (*People's Democracy*, June 25, 1965, p. 1.)

The left wing of the C.P.I. supports the older, traditional conception of a people's democracy run by the working classes. The break with the right wing and their idea of a democratic front became particularly evident after the death of Ghosh, General Secretary of the C.P.I., in 1961.

With the frontier tension between India and China, feelings grew more bitter. On November 1, 1962, Dange appealed to the people to 'defend the country against Chinese aggression'. The left and part of the centre supported negotiation. Several members of these latter groups resigned from their posts in the party; and among these was Namboodiripad, one of the most important leaders.

Since 1964, there have been two Communist Parties, the 'left' and the 'right'. Each considers itself the true successor of the original C.P.I. The 'left' party has put out new publications, for the Indian government gave the use of the Communist Party offices and publications to the 'right'.

The 'left' party is, in fact, a 'centre' and 'left-wing' coalition.

Although the ideological positions of the two parties are different, collaboration is not unthinkable. In some States the two Communist parties are, at present, working together.

The rapid increase in prices and in the cost of living during the past few years, added to the food shortage, have made the people more ready to hear what the communist movement has to say.

[1] A new left-wing C.P.I. paper.

NOTES TO CHAPTER XIII

(1) What is said in the text depends on the estimates for an intermediate year in the period studied. The estimates are as follows:

TRADE UNION MEMBERSHIP IN SOME BRANCHES OF INDUSTRY 1955–6

	Trade union member-ship	Wages	% of Trade union member-ship
Plantations	311,000	1,213,000	26
Coal mines	122,000	352,000	35
Railways	205,000	1,031,000	20
Postal services	43,000	200,000	21·5
Foodstuffs, drinks and tobacco	221,000	499,000	44
Textiles	418,000	1,134,000	37
Metal industries	67,000	102,000	66
Chemicals	35,000	80,000	44
Trade, wholesale and retail	36,000	960,000	3·7
Banking and insurance	36,000	150,000	24

Of course these figures must be interpreted carefully. The memberships declared do not always correspond to the actual trade union membership, and the proportion in which the trade unions declare the number of their followers varies from industry to industry. The activities of the different trade unions and their keenness can vary widely, and it is not necessarily those trade unions with the highest percentage of members that are the most stable and active.

It must be emphasized that many trade unions are basically ephemeral. Thus hundreds of new trade unions are registered every year, and hundreds of others cancel their former registration.

The table above was worked out from the *Statistical Abstract*, India, 1957–9. The employment figures are for 1955 or 1956, except for activities such as trade, banking, insurance and the postal services, which do not give regular employment statements; in these cases, the Census figures for 1951 have been used. This table may usefully be compared with that worked out for 1953 by Charles A. Myers on page 128 of *Industrial Relations in India*, Bombay, 1958.

(2) Cf. the report of the General Assembly of Shareholders of the Iron and Steel Company on December 21, 1959.

(3) See particularly on this question N. R. Sheth's article 'Trade Unions in an Indian Factory', *E.W.*, July 23, 1960, pp. 1159 *et seq.* This article also sheds light on the motives of certain trade union members, and shows that a number of them were drawn to the trade unions not only because of the possibility of wage increases, but also to ensure a fairer and less brutal treatment from their employers. It is, then, a desire for social justice just as much as for wage increases which determines their attitude.

(4) One of the consequences of the employers' negative attitude with regard to the trade unions was the almost total refusal of the former to participate in collective negotiations with the trade unions. For the most part, the latter only got satisfaction for their claims by strikes or High Court decisions (the law allows the tribunals to intervene in social conflicts; it also imposes compulsory arbitration). Genuine agreements are exceptional. Of the few agreements since Independence, particularly at Jamshedpur (at the Tata factories) and Ahmedabad, none resulted from a real change of attitude on the part of the employers; in this case, the organizations taking part are not really independent of the employers, and more or less constitute 'company trade unions'. This last observation does not mean that these organizations are inactive, but that they are more concerned with 'welfare' problems than with the defence of workers' claims.

(5) Cf. S. D. Punekar 'Outside Leadership of Trade Unions', *E.W.*, Special Number, July 1958, pp. 877–9. With reference to the inquiry, the author of this article states that among the trade union leaders surveyed, more than a fifth had passed 'matriculation'.

(6) These figures taken from the *Annuaire Statistique du Travail* (p. 328) on British India. The same applies to the 1946 figures. From 1947 onwards, on the other hand, the Indian Union is exclusively concerned. Only strikes involving at least ten workers are taken into account. Political strikes are not included in these statistics. On the other hand these statistics do not include industrial strikes alone, but also those in other sectors (transports and banking for example); the former, in fact, are the most numerous. The source of the figures, from 1949, is the official statistics of the C.S.O..

(7) Between General Elections, the number of seats held by each party changes, either because of new affiliations (thus in 1963, 4 elected

M.P.s rallied to the Congress Party) or of by-elections. Between the General Elections of 1962 and December 31, 1964, there were 21 by-elections to the *Lok Sahba* of which Congress won 13 seats and the opposition 8; compared with General Elections, the by-elections mean a net loss of one seat for Congress.

(8) All the figures concerning the 1967 general elections are based on the data available in March 1967. In subsequent months there have been shifts of some M.P.s from one party to another. This is mainly true for 'independents' and Congress splitters.

(11) This has forced the leaders of the Congress Party, particularly since J. Nehru's death, to state that it was fighting resolutely against corruption and nepotism in the party ranks. This statement of principle has had little effect. The treatment, in particular, in 1965 of the case of misuse of power by certain Ministers of Orissa for personal enrichment (admitted by an inquiry by the Central Bureau of Investigation) profoundly shocked a section of opinion (cf. *E.W.*, March 20 1965, pp. 50 *et seq.*, the article 'Vote, but no Vindication'). The reports of the Public Accounts Committee and the Public Undertaking Committee (published in 1966) confirm the existence of corruption (cf. *E.P.A.*, August 27, 1966, pp. 67 *et seq.*

(12) In 1965 during the Bangalore session of the A.I.C.C., there were four main groups of leaders:

(i) The group in power, made up of Lal Bahadur Shastri, Kamaraj and Gulzarilal Nanda, which can be considered as a 'centre left' group.

(ii) A group claiming the 'Socialist' ideology of Nehru, i.e. representing the 'left of Congress', and led mainly by Indira Gandhi, Y. B. Chavan, and Subramanian. This group supports the first group.

(iii) A group considered 'centre right'. It is led by S. K. Patil, Sanjiva Reddy and Atulya Ghosh. The first group has only kept its leading position with the neutrality of the third.

(iv) A group of the 'right' lead by Morarji Desai, Sagjivan Ram and Vijayalahshmi Pandit, J. Nehru's sister. This group is most opposed to Kamaraj and Lal Bahadur Shastri, whose indecision and 'Nehruist dogma' it repudiates. Each group has its support in the party and the Provincial Governments. There are also violently opposed factions in the States. The very violence of the conflicts tends, at least temporarily, to consolidate the power of the leading group, which becomes the symbol of a certain stability. During the A.I.C.C. at Bangalore, Sahstri took advantage of this situation with remarkable skill (cf. Romesh Thapar's

'The Congress Troikas', *E.W.*, July 17, 1965, pp. 1126 *et seq.*, and 'Bangalore and After', *ibid.* of July 31, 1965, pp. 1193 *et seq.*).

(13) Some of the 'alliances' formed between politicians in Congress, especially at State level, have neither political nor definite ideological content. It is more a question of personal combinations with the purpose of gaining posts with monetary gain for their holders (owing to corruption and misuse of power for personal ends). Such combinations are generally unstable. This is called 'groupism' and 'factionalism'.

A frank description of this situation may be found in the *By-Elections Committee Report*, published by the A.I.C.C., October 23, 1963.

'. . . the Congress personnel is hopelessly divided. Factionalism is so pervasive that one can see only the groups and there is very little of Congress left in these places. The dissensions and mutual vilification create on one hand a revulsion of feelings against the Congress among the people and lead to a paralysis of Congress activity on the other. . . .'

'. . . Within the Congress the personal aspect has dominated its political activity leading to the ascendency of power politics in the working of the organization. . . . The pivot around which Congress activity revolves is the personality through whom preferment can be obtained, and not the aims and purpose of the party.' (pp. 4–5.)

CONCLUSION

We can now summarize briefly the various aspects of development in India since Independence, and, with this overall view in mind, attempt to judge what the future holds for India.

I. DEVELOPMENT SINCE INDEPENDENCE

India made a start towards economic development after Independence. It was not a rapid start, and until now growth has been slow and is marred by serious disproportions leading to a crisis in the balance of payments.

Industry has shown the most decisive advance. This is a healthy sign for a country which possesses all the natural conditions industrialization requires and which has immense, untapped resources. But society as a whole has not gained equally from the industrial expansion. Much of it has gone to satisfy the growing demands of the richer classes while essential needs are neglected. Furthermore, some developments are particularly unhealthy; there is a good deal of pseudo-industrialization, taking place in the final and near-final stages of production.

Basic industries—power, and the supply of raw materials, intermediary products, equipment, spare parts, etc.—have not kept pace with the industrial expansion. Increasing quantities of raw materials, semi-products and spare parts have to be imported to cater for current production. The basis of the industrial sector's simple and enlarged reproduction has not been strengthened as much as production figures might suggest at a glance; it is becoming more and more unsatifactory. This is true even for steel, where production will not meet internal requirements during the Fourth Plan. The deficit may vary from 2·3 to 3 million tons a year, in which case it would not be possible to pay for such imports. (1)

The increasing disproportions within the Indian economy have an unfavourable effect on the country's foreign trade and on her balance of payments. The fault lies in the structure of the Indian economy, in the narrowness of the rural market, in quick profit-seeking by private capital.

The result has been that Indian capital is collaborating more and more closely with foreign capital and losing its independence. These negative developments have not been entirely offset by the development of State capitalism, which is itself retarded by general economic conditions.

Progress in agriculture has been much slower than in industry. It has not been rapid enough to satisfy the growing demand for agricultural produce. Hence increased imports, food imports now reaching huge amounts.

Although development has been unequal, and despite the future perils which have thus been engendered, overall progress has been fairly impressive. Its origins can be traced to the policy of State capitalism which was put into action in 1951 and really gathered way after 1956. But State capitalism has not succeeded in accomplishing two tasks which are essential to a development policy in India. It has not been able to mobilize the unemployed productive forces on a large scale, nor has it managed to provide a substantial increase in the rate of national accumulation. Consequently, growth past and present has to depend on foreign financial aid.

Financial assistance from the socialist countries has been of importance in recent years, although the amount of credits provided is only a fraction of the sum lent by capitalist countries. Increased aid from the socialist countries has been important for two reasons.

In the first place, socialist aid has been directed towards improving India's industrial infrastructure, and therefore her self-equipment capacities. Lack of self-equipment is a major weakness of the Indian economy. In the second place, the socialist countries' interest in India's development has stung the capitalist countries into increasing their own financial assistance to India.

The capitalist countries have provided a larger amount of foreign assistance than the socialist bloc and have helped India to avoid a serious crisis. They have lessened the danger from insufficient agricultural output. But India's problems have not been solved. Slow progress in agriculture and disproportions in industry have prevented India from becoming more economically independent. Her foreign debt has risen steadily. The loans accorded by the United States and by the World Bank have forced her to allow foreign private capital to strengthen its hold on the economy. The financial measures which have enabled foreign capital to do so are of the greatest danger to the future of India's economy and to her independence.

Social Progress

Social and regional inequalities have increased. The standard of li among the majority of the population (especially among agricul labourers, the poor peasantry, and some of the urban proletariat sub-proletariat) has remained stationary and sometimes has e deteriorated in recent months, while the wealth and the power of the bourgeoisie have increased rapidly. Class polarization has become m evident.

The agrarian reforms have accelerated the development of rural even of agricultural capitalism. The new rural capitalists were origin landed proprietors or members of the upper peasant classes. Altho agricultural capitalism is developing slowly, it has given agricultur weak but definite social basis on which to expand. One must not for that this capitalist development is limited by the small number of ho ings which are able to use capitalist methods and by the small size the rural market.

The rural market cannot expand rapidly because 'semi-feudal' p duction relationships are still predominant over much of the count Where they are disappearing, the movement is very slow. The mark expands slowly because the villages are still dominated by a few me chants and usurers and by rich peasants who often have local monopol and can therefore acquire a large amount of the economic surplus fro agriculture. Much of the surplus is thus diverted away from producti investment.

The number of small enterprises is on the increase, as is the numb of modern handicrafts. Modern commercial development is harmi the traditional small trades and the pedlars. The urban petty bourgeois is developing slowly because of the domestic market's slow developme resulting from the expansion of monopoly capital's transactions an State capitalism. Whatever the reason, there can be no doubt that som strata of the urban and suburban petty bourgeoisie are doing quite well

The market for handicraft and small traditional enterprises' product has been somewhat reduced through competition from modern industr and commerce. The depression varies according to region and type o activity.

The effects of recent growth on the non-urban wage-earners hav been multiple. The real value of their wages and salaries has not in- creased to any great extent. Although there are now more opportunities for employment, the number of unemployed persons has risen more

quickly than the number of jobs available. The situation has therefore deteriorated, particularly for young people out of work.

The slow rate of development and its inequalities have also affected the industrial proletariat. It has been strengthened by the recent industrial expansion, but employment is not yet guaranteed. In fact, underemployment and unemployment have increased. (2) The move towards the towns and the changes in rural conditions accelerate proletarization.

Politics

The Congress Party, although it has long been in power, still has great influence throughout the country. But it is losing ground, slowly in some regions, less slowly in others. It has maintained its hold on the country because until very recently its economic policy had been fairly successful. It has managed to keep the bourgeoisie united. The recent strengthening of Indian capitalism in the towns and countryside has meant that the disagreements within the bourgeoisie have not come to a head (which explains why the Congress Party's potential rival, the Swatantra Party, has not gained much ground).

The Congress Party's loss of prestige can be attributed to various factors. Some are entirely political: for example, the attacks from other parties, which are helped by the fact that the Congress Party has managed the country's affairs for a long time in a way which has not benefited everyone, even among the ruling classes. Another factor is the disagreements within the party, which reflect the disputes among the ruling classes. Also, corruption and nepotism in the Congress Party have caused irritation and even hostility.

Apart from these political factors, the progressive loss of the Congress Party's following can be attributed to the fact that its economic policy is far from being entirely successful, to the feeling that the country is not becoming economically independent, and to the increase of social inequalities. This last factor explains why the least favoured classes are increasingly discontented. In the cities there have been mass protest meetings, sometimes with outbreaks of violence. Class conflicts are not always to blame; there have been violent disputes between religious and linguistic communities. Regional inequalities have also increased, creating difficult conditions for the Congress Party in Southern India and in some States (in West Bengal, for example).

Until now it has been the Communist Party which, despite the split, has gained most from the Congress Party's losses. But the right-wing

communalist parties, especially the Jan Sangh and the Swatantra, ha also gained ground.

2. ECONOMIC PROSPECTS

Despite the growth of productive forces during the first three Plan the structural changes which have been made, and the volume of forei financial assistance, it seems improbable that the rate of growth betwe 1951 and 1966 can be maintained in the next few years.

However, the Fourth Plan's targets seem extremely unrealistic in th light of past experience since there have been no fundamental changes i social, political and economic affairs. One serious inconsistency is th high rate of growth expected between 1966 and 1971. If this rate is to b attained, agricultural production will have to increase by about 5 pe cent a year. It is difficult to see how this could be done.

Equally unrealistic are the estimates for the increase in employmen and the statement that by the end of the Fourth Plan India will hav made considerable progress towards self-sustained economic growth This appears to be unrealistic both for the production structure that wi be obtained and for the balance between internal and external invest ment financing. (3) In fact, India will have to call upon foreign financi aid to an unprecedented extent. (4) Any further increase in the rate o growth therefore seems unlikely.

India's growing reliance on foreign capital will have various effects o the possibility of future development. There will be more interference i economic policy and economic affairs, which will have a direct influenc on future expansion. Foreign capital will strengthen its hold on Indian capital, and it may well be difficult to increase Indian exports. India wil also become more reliant on the United States, and will be obliged to follow American foreign policy. One important effect of this situation is the present (1967) inability of the government of India to decide upon the size and structure of the Fourth Five-Year Plan. More than one year after the end of the Third Five-Year Plan, no new Five-Year Plan has been prepared, the Draft Outline is still in the process of being revised and only One-Year Plans are being prepared.

In any case, heavier costs resulting from the foreign debt and foreign investments will make it extremely difficult for India to continue the all-out development effort. If costs increase at the present speed and at the speed which is expected in the future, and if the country cannot

provide much more from internal resources, India will soon find herself burdened with a foreign debt she cannot possibly repay. We have seen that India's principal creditors are beginning to be able to impose the economic policies they think suitable.

India would then find herself in the classic and all-too-well-known situation prevalent in South America: incapacity to meet foreign expenses (repayments, interest costs, dividends, import costs, etc), a demand for more aid and for a payment moratorium, the arrival of a mission of 'financial experts' sent by the creditor countries or by the I.B.R.D. or the I.M.F., who would outline an 'austerity programme' which India would be forced to accept, thus losing the initiative in matters of investment, prices, currency, etc.

Whenever this has happened, economic growth has been halted. Only monopoly capital might still manage to prosper by absorbing enterprises which had run into difficulties. From a political point of view, the result would be violent opposition among the people and a weakening of the parliamentary system, which could lead to dictatorship.

One rather unrealistic hope for the Indian government is that the capitalist countries, trying to outdo their socialist rivals, may no longer take maximum advantage of India's situation. But even if they agreed that some repayments be postponed, it is extremely unlikely that they would continue to provide the large sums necessary for the continuance of India's present economic policy.

The question, finally, is this: will India be forced to adopt a slow, constrained rate of development and perhaps even a steadily decreasing rate?

It is not easy to reply to this question. If India's human, material and technical resources are considered, the answer is certainly no. Production could be increased to a large extent by using the unused productive forces (mainly by eliminating underemployment and unemployment). India's natural resources are large and particularly suited to industrialization; this is also true of her agricultural resources, and particularly of her water reserves which could be used to increase and stabilize the harvests. Technically, there are enormous possibilities of expansion in most sectors of the economy. Neither the material nor the technical conditions in India suggest that development must be slowed down.

However, the results of these last few years have shown that unless India's social and economic structures undergo important changes,

economic growth will in fact be reduced. The threat is all the more serious as the results during recent years have been obtained in good conditions of internal political stability, international collaboration, and few purely technical weaknesses.

Everything suggests, then, that the fault lies in the country's social and economic structures (the maintenance of 'semi-feudal' relations over large parts of the countryside, the power of commercial and money-lending capital in vast sectors, the strength of Indian monopoly capital and foreign capital in industry and in banking, etc.). The result is that resources are not used to the full, investments are badly distributed, the majority of completely or partially landless peasants are underemployed and most poor peasants with small parcels of land cannot find employment all the year round. These structures reduce production and prevent the domestic market from expanding rapidly and healthily. They are behind the weaknesses and the insufficiencies of recent industrial development.

One characteristic of recent development is that it is largely dominated by the increased demand from the big bourgeoisie and the richer urban and rural classes, whereas the country's 'self-equipment' capacities have increased too slowly.

The Indian bourgeoisie was willing to free itself from reliance on foreign capital but was not able to give this top priority; hence the limited measures of nationalization, the structures of the Plans and the closer collaboration between the Indian bourgeoisie and foreign capital.

The progress which has been made towards self-equipment through the creation of heavy industry resulted from the socialist countries' propositions and from the agreements between India and the socialist bloc. It is highly probable that the Indian bourgeoisie could not have achieved the existing modest rate of industrialization were it not for the socialist countries' impulsion.

The social and economic structures also prevent technical changes in the rural crafts and in the small traditional industries, because there is no expanding market to promote change, and because financial resources are lacking.

Due to social conditions the government cannot use the large economic surplus retained by the owning classes, which could have been devoted to genuine development. Most of the surplus is still used for personal consumption and non-priority investment; hence the expansion

of non-essential building and the increased demand for imported goods or goods produced with the use of imported materials.

The whole structure of financial policy (and of taxation in particular) reflects the power of big capital. The poorer classes are more and more heavily taxed. This is another factor which determines how India's economic development will proceed.

3. SOCIAL AND POLITICAL PROSPECTS

However, the social and economic structures tend to alter spontaneously. The changes observed in recent years will probably continue; that is to say, there will be a progressive development of urban and rural capitalism. This will presumably increase social inequalities, as it has done in the past.

The rate at which the National Income is likely to grow (3 or 4 per cent per year) can be guaranteed by increasing the productivity of labour. This means that there need not be an increase in employment. There is every indication that the weak increase which may occur will not be enough to compensate for the natural increase in the working force (which is more than 2 per cent a year) or the increasing rural under-employment which is caused by technical changes in agriculture. The fundamental social problem in the years to come may well be the rise in unemployment and underemployment. This rise has already begun.

Consequently, conditions among the underprivileged classes (i.e. the great majority of India's population) will grow worse, and particularly among those who make up the traditional society of India. On the other hand, the average standard of living among the new social strata will certainly rise, although here also there will be increasing inequalities.

On the whole, it is highly probable that agricultural labourers, the poor peasantry and the traditional craftsmen will be even worse off, mainly because of underemployment and mounting retail prices, whereas the richer rural classes will slowly become rural capitalists.

4. THE INTENSIFICATION OF SOCIAL CONTRADICTIONS

Thus social contradictions will be increasing, both those which inevitably go with the development of capitalism, and those which are

caused by the slow disappearance of a traditional society. The latter t will certainly cause the greatest suffering and, especially in rural distri it may be a question of life or death.

The contradictions inherent in a capitalist society will also deve and cause further social tensions. Trade unionism and class conscio ness will develop among industrial workers, and especially among t skilled workers. The relations which exist between the industrial pro tariat and the exploited rural classes (which will deteriorate) may lead an overall radicalization of the working masses.

How will political affairs be affected by these social developmen Of course, it is difficult to give any definite answer. Much depends on t international situation, and on the impact of any actions taken by t political parties. What can be said is that in the present conditio considering the lines of action of the various political parties and th degree of organization, it is unlikely that there will be any major politic change for some time. Nevertheless, as social inequalities and conditio among the working masses grow worse, a revolutionary movement m develop, especially if there is a serious economic crisis as well as bett mass organization.

Even if things do not take a drastic turn in the near future, the soc transformations which have been outlined above must finally cause fundamental change in the political situation.

Already the present social transformations have some effect on trad tional society. The poor have shown their discontent more openly in th regions where economic progress has been greatest. Furthermore, ne social relationships have been created with the progressive changes i the nature of the owner classes. Social tensions have already appeare in the regions where the new profit-seeking classes have acted wit brutality. These types of tension were not present in the tradition structure of society. The extension of education is also a factor whic will certainly open new horizons. Progress in this sphere is not entirel satisfactory, but if the number of primary schools doubles in ten year the social awareness of the new generation will undoubtedly be greate than ever before.

Some development can be expected from better communications[1] an

[1] The number of motor vehicles of all types nearly tripled between 1947 an 1962. The number of bicycles owned has also increased considerably. The villages, which for centuries have been cut off from the rest of the world, are slowly becoming less isolated.

from growing interest in the Press[1] and radio.[2] Thus the process of development will itself create new desires and help to make the population more conscious of its situation.

In the last few years, development has been progressing at the lowest possible rate compatible with social stability. But the necessary minimum will probably rise in the years to come, for change sets off the desire for more change, and unequal development increases the social disequilibrium.

However, in present conditions, the maximum rate of growth which can be attained will probably fall, and development may even be halted momentarily. We have seen that such a risk is inevitable, given the imperfect forms of development, the growing reliance on foreign capital and the increase of social parasitism.

One or two more points must be emphasized. The contradictions developing within the Indian economy (as in those of many 'underdeveloped' countries) are particularly serious because this sort of economy is easily affected by large-scale disproportions and internal inequalities once a break is made with the past.

When some sections of society change without any corresponding change in others, serious contradictions develop. Effective planning and a social use of the productive forces are essentials.

At present, the rise in population and the changes in rural India are causing a flow of workers into the towns. The present rate of industrialization is not high enough to provide work for them all. The towns have grown by about 25 per cent in ten years and this has given rise to enormous difficulties in employment and housing. The housing situation, already poor, has deteriorated rapidly. There are also problems of urban development, social amenities, etc. In all these spheres, disequilibrium has developed far more quickly than ever it did in the nineteenth-century industrial societies. This is so because in many sectors (especially in agriculture) development is impeded by the agrarian structures, by the money-lending system, by many monopolies and quasi-monopolies.

[1] The following figures show that the influence of the press is making slow headway. The total circulation of daily papers was about 3 million copies in 1951; in 1962, it was 5·2 million copies, which means about 10 copies per 1,000 inhabitants, one of the lowest circulations in the world, two and a half times lower than in Egypt, five times lower than in Mexico. (5)

[2] There has been a rapid increase in the number of radios owned by the Indian public. In 1950, the figure was 500,000; in 1960 about 1·8 million; at the end of 1963, about 3·6 million. But this means a very small number of radios per thousand inhabitants.

Unless there are profound structural changes, and unless planning decisions are rigorously carried out, the serious disequilibrium will increase, some social classes and some economic sectors will suffer considerably, and the resulting reaction might shake the whole fabric of society.

There will no doubt be many economic, social and political crises in the years to come. We shall end this rapid glance into the future by considering the political outlook.

5. POLITICAL PROBLEMS

Despite its loss of prestige, the Congress Party may be capable for some time yet of facing up to any economic crises which the near future has in store.

In the last ten years the Congress Government has shown that it knows how to use repressive techniques when the social and economic situation is bad. Since the end of 1962, a system of police repression has developed behind the façade of democracy. Thousands of opposition leaders have been arrested in the name of national security and there have been many instances of armed acts of repression directed against popular protest meetings.

The Communist Party, essentially the 'left' party, represents the only real opposition to the Congress Party and the bourgeoisie. But the Communist Party is still weak; it will have to improve its organization and clarify its ideological standpoint. One of its main objectives must be to win over the poor peasantry and agricultural labourers from the other political parties. Until that is done, the Indian political scene will most probably remain much the same, apart from a decline in the democratic forms of government which is becoming steadily more evident.

6. THE LESSON TO BE DRAWN FROM INDIA'S EXPERIENCES

The lesson that other 'underdeveloped' countries might draw from India's experiences in the last twenty years seems to be the following. In the present international conditions, since their economies are inevitably deformed and dependent, 'underdeveloped' countries have only one means of ensuring a rapid economic development and that is to make a radical change in their social structures. In this way, they should be

able to make their human, material and technical resources serve the needs of the whole population. Private property and profit-seeking must not be allowed to limit the use of the country's resources. Changes must therefore be made towards socialism in the strictest sense of the term.

If no such changes are made (and this is evident from India's experiences, for conditions there have been relatively favourable), growth will be extremely sluggish, economic disproportions and social contradictions will increase, inequality will become widespread, and the country will find itself increasingly dependent on foreign aid.

The idea that there have been favourable conditions in India may surprise those who attempt to explain her economic difficulties by quoting the apparently insoluble agricultural problem or the influence of certain beliefs and attitudes.

The potentialities of India's agriculture may seem dubious. Many underdeveloped countries have better long-term hopes for agricultural production than has India. But all the experts agree that India's short-term potential capacity for increasing her agricultural output rapidly is far from negligible, and that she is not badly placed at the moment in this field.

As for religious ideas, taboos and superstitions, we have seen that these factors do not seem to have exercised a very large negative influence on India's relatively weak economic growth. Their influence certainly counts (although there are obstacles of this sort in all countries)- and if other conditions were more favourable these factors would certainly slow down development in India more than in other countries; But, for the moment at any rate, they cannot be considered as decisive factors. (Moreover, these 'subjective obstacles' might well be less important if social conditions were made more favourable to development.)

We also know that if the agrarian structures, usury, etc., slow down development to a considerable degree, these factors exist in nearly all underdeveloped countries which attempt a development effort based on capitalism.

India's experiences have shown that, in the present international conditions, solidarity among the privileged classes is too great for any of these classes to eliminate the pre-capitalist structures. Any attack on them (usually by the industrial bourgeoisie) lacks force and is too limited. It can nevertheless be said that the Indian bourgeoisie (because it is quite powerful) has made greater attempts to eliminate these structures than has the bourgeoisie of any other Asian country.

The main reason why India's development effort has gone forward relatively favourable conditions is the very size of the country. Even af Partition, India is a sub-continent containing more than 400 mill people, and has the second largest population of any country (af China). Her natural resources are varied and abundant. She is in position to benefit from 'economies of scale' and enjoys internatio possibilities greater than those of any other underdeveloped count India was also in a favourable position at the beginning of her develo ment effort because her industries were already quite highly develop She possessed a fairly large working class and a rich, powerful bou geoisie which showed remarkable intelligence in domestic and forei affairs. The country already had a high level of culture in the towns large administrative service, technicians, engineers and professors (so of world reputation), quite well-equipped universities, a tradition saving in many classes of society,[1] intellectual traditions, a respect learning, etc. All these factors gave India a considerable advantage ov other underdeveloped countries right from the start of her developme effort. It therefore seems safe to say that no other underdevelop country could succeed in attaining a rate of development higher th India's by using capitalist methods; and yet India's rate of growth insufficient and does not offer the hope of a quick, regular, self-sustain growth in the future.

Some of today's underdeveloped countries could probably follo India's example for a certain time, especially those which already ha favourable economic conditions. But without the factors which ha allowed India to make some fairly rapid advances in certain spher they would find themselves in very awkward circumstances. That one of the major lessons India has taught the rest of the world during th the last few years.

NOTES TO THE CONCLUSION

(1) See the *Economic Times*, November 18, 1966.

(2) On this point, see Chapter IX and Chapter XII.

[1] Some gross savings are known to be tied up in gold. Gold, unless pro duced or imported, has no effect on net saving and simply changes hands withi the country. Imported gold adds to the unproductive capital formation. Offici gold imports are now strictly controlled, but gold is smuggled into the country Total gold importation is generally estimated at about 350 million Rs. per year This is quite a significant sum.

(3) Towards the end of the Second Plan, the average rate of net investment was about 11 per cent, if the Planning Commission's figures are to be believed. When external aid is deducted, the rate of net saving appears as 8 or 9 per cent. At the end of the Third Plan (1965–6), the rate of net investment should be 13·7 per cent (*T.F.Y.P.*, pp. 59 and 76). Subtracting the foreign aid needed in 1965–6, the net rate of saving should be 11 per cent.

The recent estimates of the C.S.O. give higher figures for the actual rate of net saving (11·6 per cent in 1959–60 according to the *N.I.S.-F.G.C.F.*, p. 26). These C.S.O. estimates differ considerably from the Planning Commission's figures. They put the figure for net investments during the 2nd Plan at 82·3 thousand million Rs., which is much higher than the sum given by the Planning Commission and which would give a much lower output-capital ratio that is generally accepted for the last few years.

(4) See Chapters X and XI.

(5) See *India 1964*, p. 130.

The following information is taken from the above sources. The British papers still have the largest circulation (25·5 per cent of total circulation). Next come the Hindi papers (18·1 per cent), the Tamil, Maratta, Malayalam, Gujarati, Urdu, and Bengali, etc.

(6) *v. P.N.I.*, p. 280.

ABBREVIATIONS

Most abbreviations are fully explained in the text when first used, bu the following list may be valuable for reference purposes.

I. General

A.I.C.C.	All India Congress Committee.
A.I.T.U.C.	All India Trade Union Congress.
A.R.B.	Agrarian Relations Bill.
B.D.O.	Block Development Officer.
C.D.	Community Development.
C.D.A.	Community Development Administration.
C.I.S.L.	Confédération Internationale des Syndicats Libres.
C.P.	Community Project.
C.P.A.	Community Projects Administration
C.P.I.	Communist Party of India.
C.S.I.R.	Council of Scientific and Industrial Research.
C.S.O.	Central Statistical Organization.
D.L.F.	Development Loan Fund.
D.M.K.	Dravida Munnetra Kazhagam.
D.P.C.	District Planning Officer.
E.C.A.F.E.	Economic Commission for Asia and the Far East.
E.S.	Economic Survey.
F.Y.P.	Five Year Plan.
G.M.F.	Grow More Food Campaign.
G.S.I.	Geological Survey of India.
H.M.S.	Hind Mazdoor Sabha.
H.M.S.S.	Hindustan Mazdoor Savak Sangh.
I.A.S.	Indian Administrative Service.
I.B.M.	Indian Bureau of Mines.
I.B.R.D.	International Bank for Reconstruction and Development.
I.C.I.C.I.	Industrial Credit and Investment Corporation of India.
I.C.S.	Indian Civil Service.

I.F.C.	Indian Finance Corporation.
I.M.F.	International Monetary Fund.
I.N.T.U.C.	Indian National Trade Union Congress.
I.P.S.	Indian Police Service.
I.S.I.	Indian Statistical Institute.
K.M.P.P.	Kisan Mazdoor Praja Party.
L.I.C.	Life Insurance Corporation.
N.C.A.E.R.	National Council of Applied Economic Research.
N.D.C.	National Development Council.
N.E.S.	National Extension Service.
N.I.D.C.	National Industrial Development Corporation.
N.S.S.	National Sample Survey.
P.A.C.	Project Advisory Committee.
P.C.	Planning Commission.
P.E.O.	Project Evaluation Organization.
P.E.R.	Project Evaluation Report.
P.S.P.	Praja Socialist Party.
P.W.P.	Peasants and Workers Party.
R.F.C.	Refinance Corporation.
R.R.R.	Ram Raja Parishad.
R.S.P.	Revolutionary Socialist Party.
Rs.	Rupees.
S.C.F.	Scheduled Castes Federation.
S.I.C.	Small Industry Corporation.
S.P.C.	State Planning Committee.
S.P.I.	Socialist Party of India.
S.T.C.	State Trading Corporation.
U.T.U.C.	United Trade Union Congress.
V.L.W.	Village Level Worker.
W.F.T.U.	World Federation of Trade Unions

II. Titles of Books referred to in the text.

A.L.E.-I.S.	Agriculture Labour Enquiry (Report on Intensive Survey).
A.L.E.R.M.P.	Agricultural Labour Enquiry (Rural Manpower and Occupational Structure).
A.P.S.F.Y.P.	Appraisal and Prospect of the Second Five Year Plan.
D.O.Fth.F.Y.P.	Draft Outline of the Fourth Five Year Plan.

D.O.T.F.Y.P.	Draft Outline of the Third Five Year Plan.
E.N.I. 1965	Estimates of National Income, C.S.O., Delhi, April 1965.
E.P.W.	Economic and Political Weekly.
E.S. 1964–1965	Economic Survey, 1964–1965, New Delhi, 1965, 42 pages + Tables.
E.S.	Economic Survey.
E.T.	Economic Times.
E.W.	Economic Weekly.
F.E.R.	Food Enquiry Committee Report.
F.F.Y.P.	First Five Year Plan.
1st R.N.I.C.	First Report of the National Income Committee.
F.R.N.I.C.	Final Report of the National Income Committee.
M.A.S.	Monthly Abstract of Statistics.
M.F.F.Y.P.	Memorandum on the Fourth Five Year Plan, Planning Commission, Delhi, October 1964.
M.T.A.	The Third Plan Mid-Term Appraisal, G. of India, Delhi, Novembre 1963, ii + 179 pages.
N.A. (M)	New Age (Monthly).
N.A. (W)	New Age (Weekly).
N.I.S.	National Income Statistics (Proposals for a revised series, 1955–6 to 1959–60).
N.I.S.-E.G.C.F.	National Income Statistics—Estimates of Gross Capital Formation.
N.I.S.-F.G.C.F.	National Income Statistics—Financing of Gross Capital Formation.
N.P.D.I.	Notes on Perspective of Development India: 1960–61 to 1975–76, Planning Commission, Delhi, April 1964, 261 pages.
N.S.S.-7, 8, etc.	National Sample Survey (Nos. 7, 8, etc.)
P.N.I.	Papers on National Income and Allied Topics.
R.B.I.B.	Reserve Bank of India Bulletin.
R.C.S.	Rural Credit Survey.
R.F.F.Y.P.	Review of the First Five Year Plan.
S.A.	Statistical Abstract.
S.E.F.M.P.	Studies in the Economics of Farm Management (Punjab).
S.E.F.M.W.B.	Studies in the Economics of Farm Management (West Bengal).

S.F.Y.P.	Second Five Year Plan.
S.F.Y.P.P.R.	Second Five Year Plan Progress Report, Delhi, 1962, 195 pages.
S.H.B.	Statistical Hand-Book.
S.I.F. 1955	Survey of Indian Foreign Assets and Liabilities—1955.
S.I.F. 1957	Survey of Indian Foreign Assets and Liabilities—1957.
T.F.Y.P.	Third Five Year Plan.
T.F.Y.P.	Third Five Year Plan, G. of India, Delhi, 1961, XIV + 774 pages.
T.F.Y.P.P.R.	Third Five Year Plan Progress Report, Delhi, 1963. 220 pages.
T.I.D.	The Times of India Directory.

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INDEX